REPORT OF EXAMINATION
OF THE
STERLING CASUALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

Filed May 19, 2015

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Los Angeles, California
March 27, 2015

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

STERLING CASUALTY INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 20351 SW Acacia Street, Newport Beach, California 92660.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was made as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2013. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; and statutory deposits.

SUBSEQUENT EVENTS

On April 1, 2014, the Company renewed its Automobile Quota Share Reinsurance Agreement with Maiden Reinsurance Company (MRC). Under the terms of the renewed quota share reinsurance agreement, the Company increased its ceding percentage from 20% in 2013, to 65% in 2014. MRC's maximum liability under the April 1, 2014 renewed agreement is $32,500 per policy per occurrence. The previous agreement has been in effect since May 1, 2011 and apart from the renewal changes noted above, all other terms, as discussed in the "Reinsurance" section of this report, have remained the same.

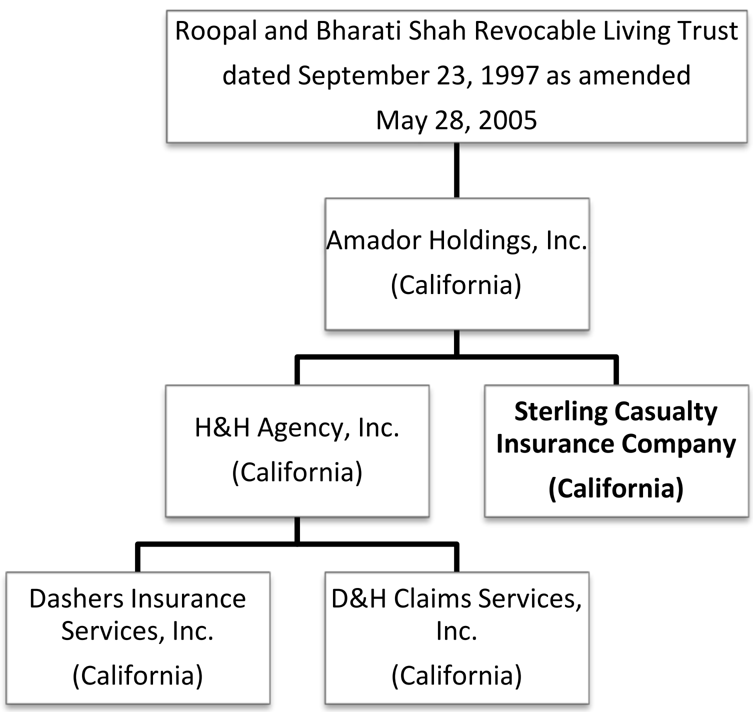
COMPANY HISTORY

As of September 30, 2012, the Company reported capital and surplus of $3.65 million, which did not meet the California Insurance Code Section (CICS) (700.01) statutory minimum requirements of $4 million to write the various classes of insurance it was licensed to insure. Due to this deficiency, the California Department of Insurance (CDI) requested that the Company file a withdrawal application to delete certain classes of its licensed insurance. The classes of insurance deleted were fire, marine, plate glass, common carrier, boiler and machinery, burglary, credit, sprinkler, team and vehicle, and other miscellaneous. The Company's withdrawal application was approved by the CDI on December 18, 2012. Upon withdrawal of the above specified classes of insurance, the Company, thereby, met its CICS (700.01) statutory minimum requirements of $2.2 million for its remaining automobile class of insurance.

On May 9, 2013, the Company's ultimate parent, Roopal and Bharati Shah Revocable Living Trust, contributed $1,330,685 in securities, and $85,000 in cash to Amador Holdings, the Company's ultimate Parent. On the same day, Amador Holdings contributed the securities and cash to the Company.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system and is wholly-owned by Amador Holdings, Inc. The following organizational chart depicts the Company's relationship within the holding company system: (all ownership is 100% unless otherwise noted)



Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2013 follows:

Directors

Name and Location	Principal Business Affiliation
Kenneth D. DeGiorgio Long Beach, California	Senior Vice President, General Counsel The First American Corporation
Roopal P. Shah Granite Bay, California	Director and Chief Executive Officer Amador Holdings
Michael P. Weinstein Mission Viejo, California	President and Chief Executive Officer Sterling Casualty Insurance Company

Principal Officers

Name	Title
Michael P. Weinstein	President and Chief Executive Officer
David Padgham	Chief Financial Officer and Treasurer
Helen Hayden*	Vice President, General Counsel, and Secretary
Joseph Baffoni	Vice President, Claims

* Resigned as of August 1, 2014, and the responsibilities of Secretary were merged into the Chief Financial Officer position. The Company no longer has a General Counsel position.

Management Agreements

Program Administrator Agreement: Effective December 1, 2012, the Company and its affiliate, H&H Agency, Inc. (H&H), were party to a Program Administrator Agreement that was approved by the California Department of Insurance (CDI) on September 11, 2012. Under the terms of the Agreement, the Company appointed H&H as its legal representative to act on its behalf in the procuring, advertising, underwriting, binding, and servicing of policies of insurance. For compensation, the Company paid H&H a commission rate of 22.5% of the policy premiums; and 97.5% of the policy and other fees excluding fraud fees. During the examination period, the commission rate was informally increased to 24.2% in 2013 and to 26.5% in 2014. These commission rate increases under the terms of its Program Administrator Agreement were not changed through amendments nor were they submitted to the CDI for approval. It is recommended that the Company amend the Agreement, to reflect the commission rate increases, and submit the amendment to the CDI for approval to comply with California Insurance Code Section (CICS) 1215.5(b)(4). During 2012 and 2013, the Company compensated H&H $7,365,258 and $7,516,576, respectively, under the terms of this agreement.

Cost Sharing Agreement: A Cost Allocation Agreement between the Company and its parent, Amador Holdings, Inc. and affiliates, H&H, Dashers Insurance Services, Inc. (Dashers), and D&H Claims Services, Inc. (D&H) went into effect on January 1, 2012 and was approved by the CDI on September 11, 2012. All entities under this the holding company group share common management and/or ownership, and routinely share personnel, facilities, equipment, and services. Each entity incurs all of its direct costs, plus each party also has an allocated proportionate share of costs. The allocated costs never exceed the fair market value of such services or expenses. Under the terms of the Agreement, H&H provides certain facilities and administrative services to the Company, both continuously and on an as-needed basis. Reimbursements for services are based on actual costs or services provided. During 2012 and 2013, the Company reimbursed H&H $547,807 and $407,091, respectively.

Claim Administration Agreement: Effective January 1, 2012, the Company and its affiliate, D&H, entered into a Claim Administration Agreement. Under the terms of the Agreement, D&H provides all claim administration services to the Company in relation to its policies that involve an actual or alleged loss which occurs during the policy term, and which is reported to D&H before this Agreement is cancelled or otherwise terminated. All expenses incurred by D&H on behalf of the Company, will be reimbursed by the Company based on actual cost. This Claim Administration Agreement was approved by the CDI on September 11, 2012. During 2012 and 2013, the Company incurred claims administration costs of $1,660,056 and $1,386,689, respectively.

Consolidated Federal Income Tax Liability Allocation Agreement: The Company entered into a Consolidated Federal Income Tax Liability Allocation Agreement (Tax Agreement) with Amador Holdings, Inc. (Amador) and other affiliates on November 17, 2006. Under the terms of the Tax Agreement, the method of allocation among the entities is subject to Internal Revenue Service Regulation and approval by the Board of Directors. Allocation is based upon separate return calculations with current credit for net losses. Federal income tax payables and receivables are required to be settled within thirty days subsequent to the filing of consolidated return.

The prior report of examination recommended that the Company amend or replace the Agreement to reflect the current holding company structure and to submit it to the CDI for approval in accordance with CICS 1215.5(b)(4). The Company did not comply with the prior report of examination recommendation, therefore, it is again recommended that the Company amend or replace this Agreement and submit it to the CDI for approval in order to comply with CICS 1215.5(b)(4).

TERRITORY AND PLAN OF OPERATION

In 2011, the Company marketed its business through two new unaffiliated distribution channels, Robert Moreno Insurance Services and SCJ Insurance Services, Inc. The launch of the new distribution channels increased its premium written by $3.7 million to a total of $26.3 million in 2011. However, the block of new business produced by the new distribution channels produced higher than usual loss ratios. Due to these adverse loss ratio results, the Company terminated all business relationships with these unaffiliated distribution channels in 2012. All new business is now produced only by an affiliated general agent, H&H Agency, Inc. (H&H), and only renewal business from the unaffiliated agencies is written.

As discussed in the “Company History” section of this report, the Company withdrew its licenses for many of its classes of insurance. Currently, and as of December 31, 2013, the Company is authorized to write private passenger automobile liability and physical damage coverage solely in California. Underwriting activities are targeted exclusively toward insuring non-standard risks. In 2013, the Company wrote $19.3 million of direct premiums.

LOSS EXPERIENCE

The Company reported operating and net losses in all years during the examination period. In 2014, the Company reported gain and net income:

Year	Net Underwriting Gain or (Loss)	Net Income or (Loss)
2011	$ (1,540,802)	$ (575,241)
2012	(1,893,686)	(1,658,393)
2013	(1,066,626)	(1,095,486)
2014	4,670	553,587

The losses sustained by the Company during the examination period were primarily due to significant increases in losses and decreases in premiums written. The Company's surplus has decreased by approximately $3.4 million as the result of the net losses for the years under examination.

The Company took corrective measures during 2012, 2013, and continued this practice in 2014. The corrective measures included but not limited to:

1. In order to reduce its overall operating expenses, the Company eliminated various operating expenses in 2012, 2013 and continued the trend in 2014;

2. The Company terminated its relationships with all unaffiliated business distribution channels in 2012 as discussed in the "Territory and Plan of Operation" section of this report;

3. Effective April 1, 2014, the Company increase its ceding reinsurance participation to 65%.

Consequently, the Company has experienced an improvement in relation to both operating and net income during 2014 subsequent to the examination date.

REINSURANCE

Assumed

The Company does not have assumed business.

Ceded

Effective May 1, 2011, the Company entered into a Quota Share Reinsurance Agreement with Maiden Reinsurance Company (MRC), an accredited reinsurer. Under the terms of the Quota Share Reinsurance Agreement, the Company cedes 50% of its new and renewal business, exclusive of policy fees, inforce on or after the effective date written for private passenger automobile liability to MRC. MRC's maximum liability under the Agreement shall not exceed $25,000 per policy per occurrence. This Agreement was renewed at 45% and 20% participation in 2012 and 2013, respectively.

Effective May 1, 2011, the Company entered into an Excess of Loss Reinsurance Agreement with MRC. Under the terms of the excess of loss reinsurance agreement, the Company retains the first $50,000 of ultimate net loss per occurrence. MRC's maximum liability shall not exceed $450,000 of ultimate net loss per occurrence. This Agreement was renewed annually under the same terms for all years under the examination.

See the "Subsequent Events" section for details of the amendments to the above agreements.

As of the examination date the Company reported total reinsurance recoverables of $6.1 million, or 200% of the reported policyholder's surplus.

ACCOUNTS AND RECORDS

Information Systems Controls

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of this review, certain recommendations were made addressing concerns in areas such as segregation of duties, disaster recovery, and business continuity planning. These recommendations were made in the prior report of examination, but were not remedied. Therefore, it is again recommended that the Company address the recommendations concerning its information systems controls.

Taxes, Licenses, and Fees

California Insurance Code Section (CICS) 1872.8 states, in part, that each insurer doing business in the State of California must pay an annual "Vehicle Fraud Assessment Fee (VFAF)" for each vehicle insured under an insurance policy it issues in California. The fee provides funding for the investigation and prosecution of fraudulent automobile insurance claims and automobile theft in the state of California.

During the course of this examination, it was noted that the Company failed to maintain detailed supporting documentation for the VFAF remitted to the California Department of Insurance (CDI) as required by the CICS 1872.8.

It is recommended that the Company establish and implement procedures to ensure that adequate documentation is maintained to support its filing with CDI. Based on this recommendation, and during the course of the examination, the Company stated that they have commenced the process of implementing procedures to ensure future compliance with the requirement of CICS 1872.8.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2013

Statement of Financial Condition
as of December 31, 2013

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 4,272,581	$	$ 4,272,581	
Mortgage loans on real estate: First Liens	3,220,000		3,220,000	(1)
Cash and short-term investments	609,509		609,509	
Investment income due and accrued	45,603		45,603	
Premiums and agents' balances in course of collection	3,067,376	2,154,962	912,414	
Premiums, agents' balances and installments booked but deferred and not yet due	3,626,263		3,626,263	
Amount recoverable from reinsurers	2,344,060		2,344,060	
Current federal and foreign income tax recoverable and interest thereon	39,436	39,436		
Furniture and equipment	55,175	55,175		
Receivable from parent, subsidiaries and affiliates	726,423	231,672	494,751	
Aggregate write-ins for other than invested assets	19,108	16,400	2,708	
Total assets	$ 18,025,534	$ 2,497,645	$ 15,527,889	

Liabilities, Surplus and Other Funds			Notes
Losses and loss adjustment expenses		$ 4,657,196	(2)
Other expenses		295,253	
Taxes, licenses and fees		412,757	
Unearned premiums		4,195,015	
Ceded reinsurance premiums payable		2,561,396	
Amounts withheld or retained by company for account of others		269,775	
Payable to parent, subsidiaries and affiliates		58,012	
Aggregate write-ins for liabilities		32,355	
Total liabilities		12,481,759	
Common capital stock	$ 3,000,000		
Surplus notes	1,400,000		
Gross paid-in and contributed surplus	3,715,685		
Unassigned funds (surplus)	(5,069,555)		
Surplus as regards policyholders		3,046,130	
Total liabilities, surplus and other funds		$ 15,527,889	

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Statement of Income

Underwriting Income		
Premiums earned		$ 12,458,613
Deductions:		
Losses and loss expenses incurred	$ 8,762,978	
Other underwriting expenses incurred	4,762,261	
Total underwriting deductions		13,525,239
Net underwriting loss		(1,066,626)
Investment Income		
Net investment loss	$ (94,085)	
Net realized capital gain	16,712	
Net investment loss		(77,373)
Other Income		
Net gain from agents' or premium balances charged off (amount Recovered $3,834)	$ 3,834	
Finance and service charges not included in premiums	28,831	
Aggregate write-ins for miscellaneous income	15,848	
Total other income		48,513
Net loss		$ (1,095,486)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		$ 2,859,304
Net loss	$ (1,095,486)	
Change in nonadmitted assets	(133,373)	
Surplus adjustments:		
Paid-in	1,415,685	
Change in surplus as regards policyholders for the year		186,826
Surplus as regards policyholders, December 31, 2013		$ 3,046,130

Reconciliation of Surplus as Regards Policyholders
from December 31, 2010 through December 31, 2013

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2010 per Examination			$ 6,444,576
Net loss	$	$ 3,329,120	
Change in net deferred income tax		2,394,379	
Change in nonadmitted assets	909,368		
Surplus adjustments: Paid-in	1,415,685		
Total gains and losses	$ 2,325,053	$ 5,723,499	
Net decrease in surplus as regards policyholders			(3,398,446)
Surplus as regards policyholders, December 31, 2013, per Examination			$ 3,046,130

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Mortgage Loans on Real Estates: First Liens

On December 17, 2013, the Company sold its entire investment in real estate for \$4,025,000. The buyer paid 20% in cash, and executed a secured promissory note for the balance of \$3,220,000, or 80% of the asset's value. The note has a term of 48 months at a stated interest rate of 3.5% amortized over 40 years. The entire unpaid principal balance plus all accrued and unpaid interest becomes due on the first day of the 49^{th} month. Concurrent with the sale, the Company executed a full service gross lease of the first floor of the building on the property that it sold. The lease term matches the term of the promissory note of 48 months, with a 3% annual escalation. The sale resulted in a gain, gross of selling costs, of \$240,404.

(2) Losses and Loss Adjustment Expenses

The Company's loss and loss adjustment expense reserves were reviewed by a Casualty Actuary from the California Department of Insurance (CDI). Based on the analysis, the loss and loss adjustment expense reserves as of December 31, 2013 were determined to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreements - Program Administrator Agreement (Page 4): It is recommended that the Company amend the Agreement, to reflect the commission rate increases, and submit the amendment to the California Department of Insurance (CDI) for approval to comply with California Insurance Code Section (CICS) 1215.5(b)(4).

Management and Control – Management Agreements - Consolidated Federal Income Tax Liability Allocation Agreement (Page 6): It is again recommended that the Company amend or replace the Agreement and submit it to the CDI for approval to comply with CICS 1215.5(b)(4).

Accounts and Records – Information Systems Controls (Page 9): It is again recommended that the Company address the recommendations and make appropriate changes to strengthen its information systems controls.

Accounts and Records – Taxes, Licenses, and Fees (Page 9): It is recommended that the Company establish and implement procedures to ensure that adequate documentation is maintained to support its vehicle fraud assessment filing with the CDI. Based on this recommendation, the Company commenced the process of implementing procedures to ensure future compliance with the requirements of CICS 1872.8.

Previous Report of Examination

Management and Control – Affiliated Management Agreements – Consolidated Federal Income Tax Liability Allocation Agreement (Page 4): It was again recommended that the Company amend or replace the Tax Agreement and submit it to the California

Department of Insurance (CDI) for approval to comply with California Insurance Code (CIC) Section 1215.5(b) 4). The Company did not comply with this recommendation.

Accounts and Records – Information Systems (Page 8): It was again recommended that the Company should evaluate the recommendations and make appropriate changes to strengthen its information system controls. The Company did not comply with this recommendation.

Accords and Records – Claim Counts (Page 9): It was recommended that the Company establish and implement procedures to ensure the accuracy of the claim count information reported in the Annual Statement in accordance with the National Association of Insurance Commissioners Annual Statement Instructions. It was also recommended that the Company maintain adequate documentation to support claim count information. The claim count documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Company's Annual Statements to individual records. The Company has complied with these recommendations.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

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Vivien Fan, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California