

REPORT OF EXAMINATION
OF THE
THE DENTISTS INSURANCE COMPANY
AS OF
DECEMBER 31, 2021

A handwritten signature in blue ink, appearing to be 'D. DeLa', is positioned above the filing date.

Filed on June 15, 2023

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Oakland, California
May 17, 2023

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

THE DENTISTS INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office is located at 1201 K Street, 14th Floor, Sacramento, California 95814.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2016. This examination covered the period from January 1, 2017 through December 31, 2021.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is

identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company was formed by member dentists of the California Dental Association (CDA), a not-for-profit professional organization on November 1, 1979 and began transacting business on July 1, 1980. The Company is a wholly-owned subsidiary of the CDA Holding Company, Inc. (CDAHCI) which is a wholly-owned subsidiary of the CDA.

On February 28, 2017, the Company acquired the Dentists Benefits Insurance Company (DBIC), an Oregon-domiciled insurance company, and the Northwest Dentists Insurance Company (NORDIC), a Washington-domiciled insurance company following receipt of the respective states' approval of a Form A filing. Effective December 31, 2018, DBIC and NORDIC were merged into the Company with the Company being the surviving entity. As a result of the merger transactions, the Company's surplus increased by \$1.3 million. The California Department of Insurance (CDI) consented to the mergers pursuant to California Insurance Code (CIC) Section 1011(c) on December 21, 2018.

In 2019, the Company had an interest in the Rotunda Partners, LLC (Rotunda). Rotunda's sole asset is ownership of the 1201 K Street Building in Sacramento, California, where the Company and the CDA's principal offices are located. The Company's ownership interest in the Rotunda was 40% with the remaining 60% owned by the CDA. Effective February 1, 2020, the Company purchased from CDA the 60% ownership interest in Rotunda for \$18.8 million. As a result of the purchase, the Company became the sole

owner of Rotunda. The CDI did not disapprove this transaction pursuant to the CIC Section 1215.5(b)(1) as of January 13, 2020.

Capitalization

The Company is authorized to issue 1,000,000 shares of common stock with a par value of \$2,000 per share. As of December 31, 2021, there were 2,500 shares issued and outstanding.

Dividends

During the examination period, the Company paid the following ordinary cash dividends to its parent, CDAHCI:

<u>Year</u>	<u>Total</u>
2017	\$5,644,440
2018	\$16,727,884
2019	\$8,945,229
2020	\$5,071,734
2021	\$3,071,387

MANAGEMENT AND CONTROL

The Company is a member of a holding company system in which the California Dental Association (CDA) is the ultimate controlling entity. The following organizational chart depicts the relationship of the companies within the holding company system as of December 31, 2021. All ownership is 100% unless otherwise indicated:

California Dental Association (California)
CDA Holding Company, Inc. (California)
The Dentists Insurance Company (California)
Rotunda Partners, LLC. (California)
TDIC Insurance Solutions, Inc. (California)
Dentists Service Company (California)
The Dentists Supply Company (Delaware) (13%)

The seventeen members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2021:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Teri L. Barichello, DMD Portland, Oregon	Vice President and Chief Dental Officer Moda Health
John L. Blake, DDS ^(a) Seal Beach, California	Executive Director/Dental Director Children's Dental Foundation
Douglas N. Christiansen, DDS San Diego, California	Dentist/Owner Dental Care by Douglas N. Christiansen, DDS
Daniel G. Davidson, DMD Kentfield, California	Dentist/Owner Daniel G. Davidson, DMD
Dennis C. De Tomasi, DDS Clearlake, California	Oral Surgeon/Owner Dennis C. De Tomasi, DDS
Gary L. Dougan, DDS, MPH ^(a) Cathedral City, California	Retired
Peter A. DuBois San Francisco, California	Executive Director California Dental Association
Clelan G. Ehrler, DDS Redlands, California	Retired
Kenneth M. Jones ^(a) San Francisco, California	Self-employed Consultant
Steven J. Kend, DDS Palos Verdes Estates, California	Dentist/Owner Matthew S. Thunberg, DDS and Steven J. Kend, DDS, Inc.
Natasha A. Lee, DDS San Francisco, California	Dentist/Owner Better Living Through Dentistry
Leland R. Panec, DDS ^(a) Mountain View, California	Dentist/Owner Leland R. Panec, DDS

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Princy S. Rekhi, DDS Renton, Washington	Dentist/Owner Highland Dental
Robert F. Spinelli Carmichael, California	President and Chief Executive Officer The Dentists Insurance Company
Kevin K. Stockton Meadow Vista, California	Self-employed Consultant
Mark I. Taira, DDS Los Angeles, California	Dentist/Owner Mark I. Taira, DDS, Mary M. Murakawa, DDS Cosmetic, General, and Family Dentistry
Sharine V. Thenard, DDS, MS Alameda, California	Dentist Alameda Pediatric Dentistry

Principal Officers

<u>Name</u>	<u>Title</u>
Robert F. Spinelli	President and Chief Executive Officer
Kevin C. Roach	Chief Financial Officer
Alison P. Sandman	Chief Legal Officer and Assistant Secretary
Carrie E. Gordon	Chief Strategy Officer

The following changes in board occurred subsequent to the examination date:

- (a) John L. Blake, DDS; Gary L. Dougan, DDS, MPH; Kenneth M. Jones and Leland R. Panec, DDS left the Board, effective December 31, 2021. Scott S. Kim, DDS and Wallace J. Bellamy, DMD were added to the Board, effective January 1 and March 15, 2022, respectively. The other two board positions are vacant as of the date of this report.

Management Agreements

Management Services Agreement: Effective January 1, 2014, the Company entered into a Management Services Agreement (Agreement) with its ultimate parent, California Dental Association (CDA). Under the terms of the Agreement, CDA will provide the Company with the following services: sponsorship; advertising partnerships and scientific

session exhibit opportunities; government relations services; legal; human resources; financial services; investment; information technology; marketing; mailroom; print shop; website; advertising; strategic planning and project management services; governance and administrative services. Compensation for the aforementioned services is at actual cost and payable monthly. At the request of the Company's Board of Directors, the Executive Director of the CDA will serve as the President and Chief Executive Officer (CEO) of the Company. Pursuant to California Insurance Code (CIC) Section 1215.5, the California Department of Insurance (CDI) issued a non-disapproval for this Agreement on February 13, 2014. The total fees paid by the Company under this agreement in 2017, 2018, 2019, 2020, and 2021 were \$5,674,995, \$6,553,810, \$5,836,361, \$7,221,302 and \$6,119,588, respectively.

Amended and Restated Management Services Agreement: Effective January 1, 2019, the Company entered into an Amended and Restated Management Services Agreement (Agreement) with its affiliate, TDIC Insurance Solutions (TDICIS). This Agreement replaced the Amended and Restated Service Agreement that was in effect since January 1, 2017. The Agreement was amended due to the merger of Dentists Benefits Corporation into TDICIS on December 31, 2018. In addition, the Agreement replaces the position of Chief Operating Officer with President and CEO regarding the service and receipt of administrative services in TDICIS, removes the compliance and quality control services provided by the Company, added two revised Letters of Authority describing services to be provided at the TDICIS offices in Sacramento, California and Milwaukie, Oregon. Pursuant to CIC Section 1215.5, the CDI issued a non-disapproval for this Agreement on May 2, 2019. Under the terms of this Agreement, TDICIS provides the following services to the Company: policyholder services; sales; sales and distribution management; new application and policy changes; and service center support. The Company provides TDICIS with the services of its President and CEO, and executive support services. Compensation for the aforementioned services is at actual cost and payable monthly. The total fees paid by the Company under this Agreement in 2017, 2018, 2019, 2020, and 2021 were \$4,973,101, \$7,332,111, \$7,110,710, \$7,585,042, and \$7,472,011, respectively.

Tax Allocation Agreement: Effective December 31, 2019, the Company entered into a Revised Tax Allocation Agreement (Agreement) with its parent, CDA Holding Company, Inc. (CDAHCI), and affiliates, The Dentists Supply Company and TDIC Insurance Solutions. The Agreement removed Northwest Dentists Insurance Company (NORDIC) and Dentists Benefits Insurance Company (DBIC) from the Agreement since each insurer was merged out of existence with TDIC being the ultimate surviving entity, effective December 31, 2018. The Agreement also removed Dentists Benefits Corporation, which merged into TDICIS effective December 31, 2018. Under the terms of this Agreement, CDAHCI will file a consolidated federal tax return for the group and the tax liability is allocated to each company on a separate federal income tax return basis. In addition, each company is allocated any tax benefit due to its income tax losses or any other credits when utilized by the consolidated tax group. The CDI issued a non-disapproval dated December 21, 2018, pursuant to CIC Section 1215.5. The total federal income taxes incurred by the Company under this Agreement were: \$2,465,935 in 2017, \$2,000,350 in 2018, \$1,503,359 in 2019, \$(233,123) in 2020, and \$66,601 in 2021.

Sublease Agreement: Effective January 17, 2010, the Company entered into a First Restated Sublease Agreement with its ultimate parent, CDA. Under the terms of the agreement, the Company pays CDA a base monthly rent of the Company's rentable square footage plus a pro rata share of the operating costs for the premises. The current base monthly rent is \$3.10 per square foot, which is equal to one hundred percent (100%) of the fair market rental for the premises as of June 16, 2017. The Agreement was approved by CDI pursuant to CIC Section 1215.5(b) on September 22, 2010. Total rent paid by the Company to CDA under this agreement in 2017, 2018, 2019, 2020, and 2021 were \$481,058, \$475,829, \$479,910, \$484,656, and \$497,350, respectively.

Commitments and Contingent Liabilities

The Company's subsidiary, Rotunda, has a ground lease with Health Property Associates (HPA), an unrelated third party. Under the terms of the HPA ground lease, the Company has guaranteed Rotunda's performance of obligations covenants and agreements, including the future minimum lease payments to be paid under the lease. The Company

entered into this guaranty of Rotunda's lease obligations with HPA on September 13, 2002. The minimum annual payments under the ground lease are \$922,354. Rotunda has the option to purchase the land at market fair value under the lease on December 31, 2039.

On November 8, 2019, the Company's subsidiary, Rotunda that owns and operates the 1201 K Street Building ("Project"), a multi-story Class A commercial office building located in Sacramento, California, refinanced the \$30 million outstanding balance of a long-term note with a note of \$35 million, payable to Massachusetts Mutual Life Insurance Company (MMLIC). The note is due in 10 years and amortized over 30 years. The note is collateralized by a deed of trust which encumbers the Project and an assignment of leases and rents which encumbers the leases and property income. The note contains prepayment restrictions and penalties if paid prior to the maturity date. The note payable was refinanced in 2019 and bears interest payable monthly at a fixed annual rate of 4.410%. Payments, which includes principal and interest, are due monthly in the amount of \$175,473 with the remaining balance of \$28,022,901 due on December 1, 2029.

Credit and Security Agreement

Effective July 12, 2017, the Company extended an asset-backed revolving line of credit for \$2 million to Arnold Dental Supply Company (ADSCI), an affiliated company whom is a subsidiary of The Dentists Supply Company (TDSC). The original maturity date of the agreement was May 31, 2018. On May 31, 2019, the line of credit was increased to \$6 million, at a rate of prime plus 1.5% and the agreement was amended to extend the maturity date to May 31, 2021, respectively. In 2019, ADSCI was merged with and into TDSC. TDSC had extended the asset-backed revolving line of credit to TDSC and as of September 30, 2020, the outstanding balance on the note was \$5,969,052 which included accrued interest of \$23,278. On October 23, 2020, TDSC, sold its TDSC.com business to Henry Schein, Inc. With the proceeds of TDSC's asset sale, the outstanding balance of the line of credit was paid in full on October 23, 2020.

TERRITORY AND PLAN OF OPERATION

The Company specializes in providing medical professional liability, commercial multiple peril, workers' compensation (California only), and other liability coverage which includes cybersecurity. Its products are offered to members of various state dental associations with the majority of the business acquired from its ultimate parent, California Dental Association. Business is distributed through its affiliated brokerage (TDIC Insurance Solutions) and brokers owned or affiliated with larger dental associations who endorse the Company as their carrier of choice.

Direct premiums written during 2021 totaled \$85.1 million which was comprised of medical professional liability (52.3%), commercial multiple peril (25.2%), workers compensation (21.1%), and other liability – claims-made (1.4%). Majority of the direct premiums were written in California (77.3%), Washington (8.2%), and Oregon (3.9%). The remaining 10.6% were written in other states where the Company is licensed.

As of December 31, 2021, the Company was licensed to write property and casualty insurance in forty states as follows:

Alaska	Indiana	Montana	South Carolina
Arizona	Iowa	Nebraska	South Dakota
Arkansas	Kansas	Nevada	Tennessee
California	Louisiana	New Jersey	Texas
Colorado	Maryland	New Mexico	Utah
Connecticut	Massachusetts	North Dakota	Vermont
Georgia	Michigan	Ohio	Washington
Hawaii	Minnesota	Oklahoma	West Virginia
Idaho	Mississippi	Oregon	Wisconsin
Illinois	Missouri	Pennsylvania	Wyoming

The Company has two home offices, one in Sacramento, California and the other one in Clackamas, Oregon. While the Company's underwriting and claims operations are conducted in both offices, its finance, information technology, and human resources operations are at the Sacramento office.

REINSURANCE

Assumed

The Company did not assume any business during the examination period.

Ceded

The following is a summary of the principal ceded reinsurance agreements in-force as of December 31, 2021:

Type of Contract	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Property and Casualty – Excess of Loss	<u>Authorized:</u> Allied World Reinsurance Company (20%) Hannover Ruck SE (20%) Mutual Reinsurance Bureau – Various Member Companies (11.5%) Nationwide Mutual Insurance Company (10%) Scor Reinsurance Company (10%) Toa Reinsurance Company of America (10%) Endurance Assurance Corporation (8.5%) Employers Mutual Casualty Company (5%) <u>Unauthorized:</u> Shelter Mutual Insurance Company (5%)	<u>First Layer</u> \$1 million each and every loss, each and every risk <u>Second Layer</u> \$2 million each and every loss, each and every risk	<u>First Layer</u> \$1 million excess of \$1 million each and every loss, each and every risk, and any one loss occurrence, each and every risk <u>Second Layer</u> \$5 million excess of \$2 million each and every loss, each and every risk, and any one loss occurrence, each and every risk
Property Catastrophe – Excess of Loss	<u>Authorized:</u> Allied World Reinsurance Company (20%) Lloyd's Underwriters (17%) Hannover Ruck SE (17%) QBE Reinsurance Corporation (10%) Employers Mutual Casualty Company (5%) Odyssey Reinsurance Company (5%) Scor Reinsurance Company (5%) <u>Unauthorized:</u> American Agricultural Insurance Company (11%) Shelter Mutual Insurance Company (10%)	<u>First Layer</u> \$1.5 million each loss occurrence <u>Second Layer</u> \$5 million each loss occurrence	<u>First Layer</u> \$3.5 million excess of \$1.5 million each loss occurrence, subject to aggregate limit of \$7 million <u>Second Layer</u> \$12 million excess of \$5 million each loss occurrence, subject to aggregate limit of \$24 million

Type of Contract	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Property – Facultative Location Reinsured: 450 Sutter Street San Francisco, CA 94108	<u>Authorized</u> Aspen Insurance UK Limited (60%) XL Reinsurance America Inc. (40%)	\$15 million each loss occurrence	\$20 million excess of \$15 million each loss occurrence
Property – Facultative Location Reinsured: 1441 Kapiolani Blvd. Honolulu, HI 96814	<u>Authorized</u> Swiss Reinsurance American Corporation (50%) XL Reinsurance America Inc.(50%)	\$15 million each loss occurrence	\$11 million excess of \$15 million each loss occurrence
Property – Facultative Locations Reinsured: Various California locations	<u>Authorized</u> XL Reinsurance America Inc. (50%) Arch Reinsurance Company (50%)	\$7 million each loss occurrence	\$8 million excess of \$7 million each loss occurrence
Property – Facultative Locations Reinsured: Various Hawaii locations	<u>Authorized</u> Swiss Reinsurance American Corporation (100%)	\$7 million each loss occurrence	\$8 million excess of \$7 million each loss occurrence
Property – Facultative Locations Reinsured: Various Washington and Oregon locations	<u>Authorized</u> Aspen Insurance UK Limited (50%) XL Reinsurance America Inc. (50%)	\$7 million each loss occurrence	\$8 million excess of \$7 million each loss occurrence
Professional and Dental Liability – Excess of Loss	<u>Authorized</u> Hannover Ruck SE (25%) Scor Reinsurance Company (20%) Partner Reinsurance Company (20%) Markel Global Reinsurance Company (15%) Berkley Insurance Company (12.5%) Lloyd's Underwriters (7.5%)	<u>First Layer</u> \$1 million each loss event <u>Second Layer</u> \$5 million each loss event	<u>First Layer</u> \$4 million excess of \$1 million each loss event, subject to annual aggregate limit of \$16 million <u>Second Layer</u> \$5 million excess of \$5 million each loss event, subject to annual aggregate limit of \$10 million
Workers' Compensation and Employers Liability – Excess of Loss	<u>Authorized</u> Lloyd's Underwriter Syndicate No. 2987 BRT (20%) Mutual Reinsurance Bureau – Various Member Companies (10%) Hannover Ruck SE (9.75%) Markel Global Reinsurance Company (6.25%) Employers Mutual Casualty Company (4%) <u>Co-Participation</u> The Dentists Insurance Company (50%)	<u>First Layer</u> \$1 million each loss occurrence	<u>First Layer</u> \$4 million excess of \$1 million each loss occurrence, subject to annual aggregate limit of \$8 million

Type of Contract	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
	<u>Authorized</u> Arch Reinsurance Company (23.5%) Lloyd's Underwriter Syndicate No. 2987 BRT (20%) The Cincinnati Insurance Company (15%) XL Reinsurance America Inc. (15%) Markel Global Reinsurance Company (12.5%) Mutual Reinsurance Bureau – Various Member Companies (10%) Employers Mutual Casualty Company (4%)	<u>Second Layer</u> \$5 million each loss occurrence	<u>Second Layer</u> \$10 million excess of \$5 million each loss occurrence, subject to annual aggregate limit of \$20 million
Cyber Liability	<u>Authorized</u> The Hartford Steam Boiler Inspection and Insurance Company (100%)	None	\$250,000 annual aggregate per policy

ACCOUNTS AND RECORDS

Organizational Chart

According to the 2021 Annual Statement Instructions (ASI), Schedule Y and California Insurance Code (CIC) Section 1215, the term “control” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or non-management services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent (10%) or more of the voting securities of any other person.

As of December 31, 2021, California Dental Association (CDA) has a thirteen percent (13%) ownership of The Dentists Supply Company (TDSC) and a hundred (100%) ownership of Dentists Service Company (DSC). During the review of the Company’s 2021 Annual Statement, it was noted that TDSC was not disclosed in the Schedule Y, Part 1 and DSC was not disclosed in the organizational chart as a subsidiary of CDA in the Form B filing for reporting year 2021. It is recommended that the Company disclose all the affiliates within the holding company system in accordance with the 2021 Annual Statement Instructions and CIC Section 1215.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2021. The accompanying comments to the amounts in the annual statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders from December 31, 2016
through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 198,386,692	\$	\$ 198,386,692	
Common stocks	122,378,391		122,378,391	
Real estate: Properties held for the production of income	11,700,492		11,700,492	
Cash, cash equivalents, and short-term investments	17,192,655		17,192,655	
Other invested assets	19,304,858		19,304,858	
Aggregate write-ins for invested assets	67,115		67,115	
Investment income due and accrued	4,690,226		4,690,226	
Uncollected premiums and agents' balances in the course of collection	1,396,301		1,396,301	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,634,083		10,634,083	
Amounts recoverable from reinsurers	2,928,879		2,928,879	
Current federal and foreign income tax recoverable and interest thereon	115,539		115,539	
Electronic data processing equipment and software	16,071,967	16,071,967	0	
Furniture and equipment	66,037	66,037	0	
Receivables from parent, subsidiaries and affiliates	17		17	
Aggregate write-ins for other than invested assets	2,544,068	2,536,590	7,478	
Total assets	<u>\$ 407,477,320</u>	<u>\$ 18,674,594</u>	<u>\$ 388,802,726</u>	

Liabilities, Surplus, and Other Funds

				<u>Notes</u>
Losses			\$ 77,450,084	(1)
Loss adjustment expenses			50,808,804	(1)
Commissions payable, contingent commissions and other similar charges			28,246	
Other expenses			3,025,898	
Taxes, licenses, and fees			98,222	
Net deferred tax liabilities			12,274,342	
Unearned premiums			45,543,716	(1)
Advance premiums			2,580,049	
Dividends declared and unpaid: Stockholders			3,071,387	
Dividends declared and unpaid: Policyholders			604,495	
Ceded reinsurance premiums payable			1,107,066	
Funds held by company under reinsurance treaties			58,864	
Payable to parent, subsidiaries, and affiliates			2,049,711	
Aggregate write-ins for liabilities			67,116	
Total liabilities			198,768,000	
Common capital stock	\$ 5,000,000			
Gross paid-in and contributed surplus	1,000,000			
Unassigned funds (surplus)	184,034,726			
Surplus as regards policyholders			190,034,726	
Total liabilities, surplus, and other funds			<u>\$ 388,802,726</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

Statement of Income

Underwriting Income

Premiums earned		\$ 79,076,842
Deductions:		
Losses incurred	\$ 31,970,433	
Losses adjustment expenses incurred	28,212,762	
Other underwriting expenses incurred	28,016,683	
Total underwriting deductions		88,199,878
Net underwriting loss		(9,123,036)

Investment Income

Net investment income earned	\$ 8,207,212	
Net realized capital gains	8,094,110	
Net investment gain		16,301,322

Other Income

Net gain from agents' or premium balances charged off	\$ 197,281	
Finance and service charges not included in premiums	182,885	
Total other income		380,166
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		7,558,452
Dividends to policyholders		1,033,579
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		6,524,872
Federal and foreign income taxes incurred		2,084,997
Net income		<u>\$ 8,609,869</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		\$ 172,757,437
Net income	\$ 8,609,869	
Change in net unrealized capital gains	9,950,257	
Change in net deferred income tax	(1,096,112)	
Change in nonadmitted assets	2,884,662	
Dividends to stockholders	(3,071,387)	
Change in surplus as regards policyholders for the year		17,277,289
Surplus as regards policyholders, December 31, 2021		<u>\$ 190,034,726</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2016 through December 31, 2021

Surplus as regards policyholders, December 31, 2016			\$ 178,670,202	<u>Notes</u>
	Gain in Surplus	Loss in Surplus		
Net income	\$ 35,390,072	\$		
Change in net unrealized capital gains	35,318,236			
Change in net deferred income tax		4,902,154		
Change in nonadmitted assets		3,283,090		
Change in provision in reinsurance	42,000			
Cumulative effect of changes in accounting principles	1,932,766			
Dividend to stockholders		39,460,744		
Aggregate write-ins for gains and losses in surplus		13,672,562		
Total gains and losses	\$ 72,683,074	\$ 61,318,550		
Net increase in surplus as regards policyholders			11,364,524	
Surplus as regards policyholders, December 31, 2021			<u>\$ 190,034,726</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses, Loss Adjustment Expenses and Unearned Premiums – Death, Disability and Retirement

A Casualty Actuary from the California Department of Insurance reviewed the Analysis of Unpaid Loss and Loss Adjustment Expenses (LAE) as of December 31, 2021 and the Provision for Future Utilization of Death, Disability and Retirement (DD&R) Benefit as of December 31, 2021 prepared by the Company's independent actuary, and concurred with the actuary's conclusion that the Company's reserves for Loss, LAE, and DD&R as of December 31, 2021 were reasonable and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Organizational Chart (Page 13): It is recommended that the Company disclose all the affiliates within the holding company system in accordance with the Annual Statement Instructions and California Insurance Code (CIC) Section 1215.

Previous Report of Examination

None.

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,

Sam Chiu, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Ber Vang, CFE, AES, CISA
Bureau Chief
Department of Insurance
State of California