REPORT OF EXAMINATION

OF THE

WORKMEN'S AUTO INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

Filed November 22, 2013

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Los Angeles, California
August 30, 2013

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

WORKMEN'S AUTO INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 714 West Olympic Boulevard, Suite 800, Los Angeles, California 90015.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2012. 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.

SUMMARY OF SIGNIFICANT FINDINGS

The Company's total adjusted capital (TAC) to its authorized control level risk-based capital as of December 31, 2011, (as computed by the National Association of Insurance Commissioners' (NAIC) Risk-Based Capital (RBC) System formula) decreased to 185.4% from its originally calculated and filed RBC of 300.8% as a result of a $5.4 million adjustment to its loss and loss adjustment expense reserves made by the Company based on the recommendation of the Company's appointed Certified Public Accounting firm, KPMG, LLP. This revised RBC triggered the Company Action Level pursuant to California Insurance Code Section (CICS) Section 739.3(a)(1)(A) and required the submission of a RBC Plan to the CDI pursuant to CICS 739.3(b). The RBC Plan was submitted on August 6, 2012 and was conditionally approved by the CDI on October 14, 2012.

The Company continued to experience significant adverse development of its loss and LAE reserves even with the implementation of the remedial actions referenced in the RBC Plan above. Based on the Company's 2012 Annual Statement filing, its RBC ratio of 259.2% with negative trending and a combined ratio of 125.5% again triggered the Company Action Level pursuant to CICS 739.3(a)(1)(C) and the Company was required to submit an updated RBC Plan pursuant to CICS 739.3(b). The updated RBC Plan was submitted to the CDI on August 15, 2013 and is currently pending approval.

SUBSEQUENT EVENTS

On February 21, 2013, the Company was granted approval from the California Department of Insurance (CDI) to report a $3 million receivable from its parent, Workmen's Holding Company (WHC), in its 2012 Annual Statement as a capital contribution. On February 21, 2013, WHC settled the receivable with a payment of $3 million in cash.

The Company reported a receivable from an affiliate as of March 31, 2013. This receivable consisted of a $1 million inter-company receivable/loan/investment asset with an affiliate, Nissan of Downtown LA. A review of the transaction disclosed that it did not qualify as an admissible investment asset pursuant to: (1) California Insurance Code Section (CICS) 1196 – because the loan/investment was made without collateral; and (2) CICS 1210 – because the Company's capital and surplus was below the $10 million minimum capital and surplus required to invest excess funds in discretionary investments. Based on this finding, and the recommendation by the CDI, the Company amended its 2013 first Quarter Financial Statement and non-admitted the $1 million receivable/loan/investment balance. Nissan of Downtown LA, paid the $1 million receivable/loan/investment back to the Company in cash on July 30, 2013.

COMPANY HISTORY

The Company was incorporated in the state of California on August 1, 1949 and commenced transacting property and casualty business on December 10, 1949. The Company is a wholly-owned subsidiary of Workmen's Holding Company (WHC). WHC, in turn, is owned by Jeanette H. Shammas – Living Trust (JS); C&D Shammas Realty, LP (C&D); and the Nickolas N. Shammas GST Trust f/b/o Julia Holter (NNSGST).

On January 4, 2010, the Company filed a Form A application with the Arizona Department of Insurance seeking approval to sell its wholly owned subsidiary, Workmen's Life Insurance Company (an Arizona company), to Preferred Senior Holding, LLC, a Connecticut company, for the sale price of $731,536. The Form A application for this transaction was consented to by the California Department of Insurance and approved by the Arizona Department of Insurance on December 22, 2011.

The Company had a 30.7% ownership interest in a Petroleum Building Limited Liability Company (PB LLC), which owns as its major asset a 78% interest in the Petroleum Building, the home office of the Company. As of December 31, 2011, the Company's admitted carrying value of its 30.7% ownership interest in PB LLC was $5.9 million. On December 18, 2012, the Company submitted a Form D Application pursuant to CICS 1215.5(b)(1) to the CDI seeking approval to sell its ownership interest of the PB LLC to C&D Shammas Realty, LP and Jeanette H. Shammas Living Trust, the ultimate shareholders of the Workmen's Holding Company, for $6.85 million. The price was calculated based on the market value as of the sale date. The transaction was approved by the CDI on December 31, 2012.

Capitalization

During the examination period, the Company received the following cash capital contributions:

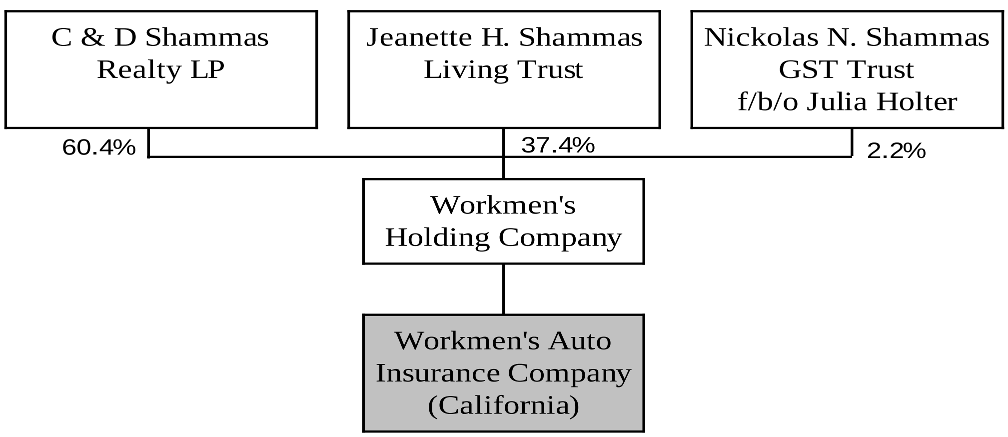
- On December 2, 2009, C&D contributed $2 million in cash to WHC for an additional 180 shares of WHC. On the same day, WHC contributed $2 million in cash to the Company;
- On November 15, 2011, C&D contributed $1 million in cash to WHC for an additional 80 shares of WHC stock. On the same day, WHC contributed $1 million in cash to the Company;
- On February 21, 2012, C&D contributed $1.3 million in cash to WHC for additional 163 shares of WHC. On February 23, 2012, California Department of Insurance (CDI) approved a permitted practice to report a receivable in the amount of $1.3 million from WHC as an admitted asset and to account for it as paid-in and contributed surplus in its December 31, 2011 Annual Statement pursuant to Statement of Statutory Accounting Principles (SSAP) No. 72. On the same day of the approval, WHC contributed $1.3 million in cash to the Company.
- On August 1, 2012, JS contributed $529,000, C&D contributed $445,000, and NNSGST contributed $26,000 to WHC. On the same day, WHC contributed $1

million in cash to the Company. No new shares were issued and ownership relationships were unchanged.

The additional share transactions disclosed above resulted in changes to the ownership percentages of WHC and are reflected in the organization chart noted within the "Management and Control" section of this report.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Workmen's Holding Company, a California corporation. The following organizational chart depicts the Company's relationship within the holding company structure as of December 31, 2012 (all ownership is 100% unless otherwise noted):



The seven 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, 2012:

Directors

Name and Residence	Principal Business Affiliation
Don E. Franzen Topanga, California	Attorney at Law Funsten & Franzen
Darryl O. Holter Los Angeles, California	Chief Executive Officer Shammas Enterprises
George A. Nevitt Louisville, Kentucky	Director Workmen's Auto Insurance Company
Carole J. Shammas Los Angeles, California	Co-Chairperson of the Board President and Chief Executive Officer Workmen's Auto Insurance Company
Diane S. Shammas Laguna Beach, California	Partner C & D Shammas Realty, LP
Jeanette H. Shammas Laguna Beach, California	Co-Chairperson of the Board Workmen's Auto Insurance Company
Denise M. Tyson Sherman Oaks, California	Executive Vice President, Chief Financial Officer, and Chief Operating Officer Workmen's Auto Insurance Company

Principal Officers

Name	Title
Carole J. Shammas	President and Chief Executive Officer
Denise M. Tyson	Executive Vice President, Chief Financial Officer, and Chief Operating Officer
John H. Mejia [(a)]	Vice President, Operations
Geri Relich	Vice President and Controller
Lisa Campbell	Vice President, Sales

(a) John H. Mejia resigned, effective April 19, 2013

Management Agreements

Inter-Company Service and Management Agreement: Since May 1993, the Company and its subsidiary, Workmen's Life Insurance Company (WLIC), were parties to an Inter-Company Service and Management Agreement (Agreement). Under the terms of the Agreement, the Company maintained all books of accounts, such as cash receipts and cash disbursements ledgers, the general journal, the general ledger, and any other books of original entry necessary for accumulation, preparation and reporting of financial data for WLIC. WLIC paid the Company a fixed monthly administrative fee of $3,000 per month since May 1993. Effective January 1, 2009, the Agreement was amended and the monthly management fee was changed to $1,500 per month, and approval was granted by the California Department of Insurance (CDI) on February 18, 2010. This agreement was terminated in 2010 as the Company sold WLIC to Preferred Senior Holding, LLC, a Connecticut company.

Inter-Company Agreement for Contract Services: Since 2005, the Company has been a party to a service agreement with Shammas Realty, LLC (SRLLC). Under the terms of the agreement, the Company performed administrative services for SRLLC, such as, payroll, employee benefits, information technology, infrastructure support, mail, and purchasing. For compensation, SRLLC paid the Company a monthly amount based on an actual cost basis. This agreement was not filed or approved by the CDI. On January 1, 2009, the agreement was amended to change the compensation to a fixed management fee of $1,800 per month, in addition to the actual expenses incurred. The fee is based on the actual cost of services provided. During the examination period SRLLC has paid the Company $21,600 each year plus the actual expenses. The amended agreement was approved by the CDI on February 18, 2010.

Lease Agreement: The Company entered into a Lease Agreement (Agreement) with its affiliates, Petroleum Building, LLC and C&D Shammas Realty, LP (Lessors) on April 1, 2010. Under the terms of the Agreement, the Company will pay rent to the Lessors based on its actual occupied space. The Company has paid the Lessors $670,969,

$682,420, and $642,341 in 2010, 2011, and 2012, respectively.

Restated Federal Income Tax Agreement: The Company, and its parent, Workmen's Holding Company, file a consolidated federal income tax return under the terms of a Restated Federal Income Tax Agreement (Tax Agreement) which was entered into on June 5, 2001, and amended during 2009. Under the terms of the Tax Agreement, the consolidated federal income tax liability is allocated among the companies in the ratio that each company's separate tax return liability bears to the total consolidated federal tax liability. The settlement of the taxes payable or receivables should be within 30 days after the filing date of the consolidated income tax return. The Tax Agreement was approved by the CDI on March 2, 2010. The Company paid or recovered the following taxes during the examination period:

Year	Amount Paid (Recovered)
2008	$ 18,255
2009	25,916
2010	28,549
2011	(200)
2012	0
Total	$ 72,520

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed to transact property and casualty insurance in the following states:

Arizona	Idaho	Missouri	Oregon
Arkansas	Illinois	Nebraska	South Carolina
California	Indiana	Nevada	Utah
Colorado	Iowa	New Mexico	Washington
Florida	Kansas	North Carolina	Wisconsin
Georgia	Minnesota	Oklahoma	

Although the Company is licensed in 23 states, it writes business in only 12 states, with most of its business written in California. Due to unfavorable underwriting results, the

Company has significantly decreased its writing in all states. The gross premium written has decreased $16.2 million from $53.9 million in 2011 to $37.7 million in 2012. The largest percentage of direct premiums was written in the following states:

State	2011 Direct Premiums Written	Percentage of Business Written	2012 Direct Premiums Written	Percentage of Business Written
California	$ 23,079,810	42.82%	$ 13,826,067	36.64%
Florida	12,618,796	23.41%	9,856,829	26.12%
Washington	6,052,669	11.23%	5,356,833	14.20%
Oregon	4,620,564	8.57%	1,687,143	4.47%
Nebraska	2,018,515	3.74%	2,084,602	5.52%

The Company primarily writes non-standard private passenger automobile insurance. Policies are issued on a direct basis at surcharged rates with terms of three, six, and twelve months. The majority of the Company's policies are written at basic limits that satisfy the various states' financial responsibility requirements.

The Company's business is produced through approximately 534 independent agents (IAs), along with three General Agents (GAs) located in California. Effective August 4, 2011, the Company terminated all of its GAs relationships due to continued unfavorable underwriting results. In addition, the Company canceled relationships with numerous unprofitable IAs across all licensed states. In 2012, direct written premium produced by the IAs was 95%; and direct written premium produced by the GA's on renewal business was 5%.

LOSS EXPERIENCE

A review of the Company's loss experience during the examination period disclosed a trend of net underwriting losses and net losses as follows:

Year	Reported Net Underwriting Loss	Reported Net Income or (Loss)	Company Reported Surplus
2008	$ (4,064,126)	$ (2,999,710)	$ 19,117,038
2009	(6,071)	1,293,897	22,685,207
2010	(7,441,577)	(814,711)	21,652,554
2011	(18,042,431)	(13,173,629)	9,612,319
2012*	(8,512,744)	(3,523,824)	10,227,862

*These amounts exclude the examination adjustments made to loss and loss adjustment expense reserves.

The Company's unfavorable loss experience trends noted in the schedule above are directly related to the Company's continued adverse loss and loss adjustment expense reserve developments.

CASH FLOW FROM OPERATIONS

A review of the Company's cash flow from operations during the examination period disclosed a trend of negative cash flows with the exception of 2009 as follows:

Year	**Net Cash from Operations**
2008	$ (3,625,217)
2009	$ 6,301,790
2010	$ (4,004,667)
2011	$ (12,640,615)
2012	$ (11,414,058)

The negative cash flow for the above listed periods is mainly attributable to significant claim payments. In order to meet its cash flow obligations during the examination period, the Company has continuously sold securities from its investment portfolio with its bond asset value declining from $38.8 million as of December 31, 2007 to $18.8 million as of December 31, 2012.

REINSURANCE

Assumed

The Company does not assume reinsurance.

Ceded

The Company's ceded reinsurance program provides protection for private passenger automobile, auto physical damage, and its homeowner's lines of business. The treaty program utilizes a combination of excess of loss reinsurance and quota share coverage. The largest net amount retained by the Company on any one loss is $150,000 as of December 31, 2012, however prior to that it was $100,000. The following is the Company's principal reinsurance agreements in-force and in run-off as of December 31, 2012 (all reinsurers are authorized):

Type of Contract	Authorized Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Excess of Loss			
First Casualty Excess of Loss	75.00% QBE Reinsurance Corporation 25.00% Toa Reinsurance Company of America	$150,000	$350,000 each and every occurrence
Second Casualty Excess of Loss	50.00% QBE Reinsurance Corporation 25.00% Toa Reinsurance Company of America 25.00% Various Lloyd's Syndicates	$500,000	$750,000 each and every occurrence Maximum: $2.25 million aggregate
Third Casualty Excess of Loss	50.00% QBE Reinsurance Corporation 25.00% Toa Reinsurance	$1,250,000	$1.75 million each and every occurrence

Type of Contract	Authorized Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
	Company of America 25.00% Various Lloyd's Syndicates		Maximum: $3.5 million aggregate
Casualty Semi-Automatic Facultative Contingency Excess of Loss			
Fourth Casualty Excess of Loss	100.00% Various Lloyd's Syndicates	$3 million	$2 million each and every occurrence Maximum: $4 million aggregate

During June 2010, the Company commuted its reinsurance contracts with Praetorian Insurance Company (PIC), which were established in 1981 and in-force through 2003, for $5,500. The Company recognized the amount received from PIC as a reduction in losses paid, and increased its loss reserves to recognize the effect of releasing PIC from its obligation under the treaties.

Effective September 30, 2011, the Company entered into a Quota Share Reinsurance Agreement with General Reinsurance Corporation (Gen Re). Under the terms of the reinsurance agreement, the Company cedes to Gen Re 10% of its new and renewal business in force, on or after the effective date written for its private passenger automobile liability and automobile physical damage lines of business. Effective September 30, 2012, this reinsurance agreement was cancelled and currently is in run-off.

As of December 31, 2012, reinsurance recoverables totaled $2.66 million, or 26% of surplus as regards policyholders, and are all from nonaffiliated authorized reinsurers.

ACCOUNTS AND RECORDS

Unclaimed Property

During the course of the examination, a review was made of the Company's unclaimed property filings with the State of California Controller's Office. California Administration Code (CAC), Title 2 – Subchapter 8 - Unclaimed Property Regulations requires, "All tangible personal property located in the State of California, that is held or owing in the ordinary course of the business and has remained unclaimed by the owner for more than three years after it became payable or distributable, escheats to the California State Controller Office (SCO)." As a result of the property filing review, it was determined the Company filed with the State Controller's Office annually. However, the filings only contained non-policy related unclaimed personal property. The Company should have filed an additional $193,000 of unclaimed personal property. The Company is in violation of CAC, Title 2 – Subchapter 8.

It is recommended that the Company escheat policy related unclaimed personal property to the California State Controller's Office and implement procedures to ensure future compliance with CAC, Title 2 – Subchapter 8. The review also disclosed that the Company has an additional $336,000 of unclaimed personal property that is not California based, but is under the jurisdiction of other states. It is further recommended that the Company implement an escheat policy that adheres to the regulations of the other applicable states.

Information System Controls

During the course of the examination, a follow-up review was made of the Company's general controls over its information systems. It was noted that the Company implemented Information Technology policies that addressed the findings and recommendations noted in the prior examination report. However, the implementation was subsequent to the current examination date. Therefore, it is recommended that the Company continue to review its information systems and to make appropriate changes to strengthen its internal controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2012

Underwriting and Investment Exhibit for the Year Ended December 31, 2012

Reconciliation of Surplus as Regards Policyholders from December 31, 2007 through December 31, 2012

Reconciliation of Examination Changes as of December 31, 2012

Statement of Financial Condition
as of December 31, 2012

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 18,767,276	$	$ 18,767,276	(1)
Preferred stocks	108,443		108,443	(1)
Common stocks	3,268,136		3,268,136	(1)
Cash and short-term investments	5,253,430		5,253,430	
Other invested assets	455,736		455,736	
Investment income due and accrued	232,132		232,132	
Premiums and agents' balances in course of collection	1,730,671		1,730,671	(4)
Premiums, agents' balances and installments booked but deferred and not yet due	6,922,681		6,922,681	
Amount recoverable from reinsurers	404,919		404,919	
Current federal and foreign income tax recoverable and interest thereon	21,854		21,854	
Electronic data processing equipment and software	143,752	80,580	63,172	
Furniture and equipment, including health care delivery assets	21,203	21,203	0	
Receivable from parent, subsidiaries and affiliates	3,021,533		3,021,533	(2)
Aggregate write-ins for other than invested assets	477,441	136,607	340,834	
Total assets	$ 40,829,207	$ 238,390	$ 40,590,817	

Liabilities, Surplus and Other Funds			Notes
Losses and loss adjustment expenses		$ 21,859,250	(3)
Commissions payable, contingent commissions and other similar charges		528,442	
Other expenses		765,476	
Taxes, licenses and fees		73,111	
Unearned premiums		10,742,180	
Advance premiums		156,618	(4)
Ceded reinsurance premiums payable		(189,630)	
Amounts withheld or retained by company for account of others		2,921	
Provision for reinsurance		1,432	
Aggregate write-ins for liabilities		1,155	
Total liabilities		33,940,955	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	29,209,316		
Unassigned funds (surplus)	(25,159,454)		
Surplus as regards policyholders		6,649,862	
Total liabilities, surplus and other funds		$ 40,590,817	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2012

Statement of Income

Underwriting Income		
Premiums earned		$ 35,652,971
Deductions:		
Losses and loss expenses incurred	$ 34,482,057	
Other underwriting expenses incurred	13,261,658	
Total underwriting deductions		47,743,715
Net underwriting loss		(12,090,744)
Investment Income		
Net investment income earned	$ 1,140,099	
Net realized capital gain	1,875,997	
Net investment gain		3,016,096
Other Income		
Net loss from agents' or premium balances charged off (amount recovered $51,895; amount charged off $434,583)	$ (382,688)	
Finance and service charges not included in premiums	2,354,682	
Aggregate write-ins for miscellaneous income	830	
Total other income		1,972,824
Net loss		$ (7,101,824)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2011		$ 9,612,319
Net loss	$ (7,101,824)	
Change in net unrealized capital gains	77,759	
Change in nonadmitted assets	55,904	
Change in provision for reinsurance	5,704	
Surplus adjustments:		
Paid-in	4,000,000	
Change in surplus as regards policyholders for the year		(2,962,457)
Surplus as regards policyholders, December 31, 2012		$ 6,649,862

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2012

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2007 per Examination			$ 19,695,747
Net loss	$	$ 19,845,977	
Net unrealized capital gains	350,652		
Change in net deferred income tax		8,412,336	
Change in nonadmitted assets	6,524,179		
Change in provision for reinsurance	37,597		
Surplus adjustments: Paid-in	8,300,000		
Total gains and losses	$ 15,212,428	$ 28,258,313	
Net decrease in surplus as regards policyholders			(13,045,885)
Surplus as regards policyholders, December 31, 2012, per Examination			$ 6,649,862

Reconciliation of Examination Changes
as of December 31, 2012

	Per Company	Per Examination	Surplus Increase (Decrease)	Notes
Liabilities				
Losses and loss adjustment expenses reserves	18,281,250	21,859,250	(3,578,000)	(3)
Net decrease to surplus			(3,578,000)	
Surplus as regards policyholders, December 31, 2012 per Company			10,227,862	
Surplus as regards policyholders, December 31, 2012, per Examination			$ 6,649,682	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds
Preferred Stocks
Common Stocks

A review of the Company's common stocks and other invested assets disclosed that a portion of its securities were maintained with the brokerage firm, Merrill Lynch & Company (MLC). Pursuant to California Insurance Code Section (CICS) 1104.9(a)(1), brokerage firms are not qualified custodians. During the examination, the Company established a Custodial Agreement with Bank of America, N.A. (BOA) to serve as the custodian and manage the securities previously held by MLC. The Company transferred all securities from MLC to BOA to comply with this requirement in May 2012.

It was recommended that, in order to assure that proper safeguards are in place to protect the Company's interests, management must submit an executed copy of its Custodial Agreement with BOA to the CDI for review and approval pursuant to CICS 1104.9(d). On July 17, 2013, the Company submitted its executed Custodial Agreement to the CDI and the approval is still pending.

(2) Receivables from Parents, Affiliates, and Subsidiaries

On February 15, 2013, C&D Shammas Realty, LP (C&D) contributed $3 million in cash to Workmen's Holding Company (WHC) for additional 667 shares of WHC stock. On February 21, 2013, the CDI approved a permitted practice to report a receivable in the amount of $3 million from WHC as an admitted asset and to account for it as paid-in and contributed surplus in its December 31, 2012 Financial Statement pursuant to Statement of Statutory Accounting Principles (SSAP) No. 72. On the same day of approval, WHC paid the $3 million in cash to the Company.

(3) Losses and Loss Adjustment Expenses

Based upon a review conducted by a Casualty Actuary from the CDI, the Company's reserves for losses and loss adjustment expenses as of December 31, 2012, were determined to be deficient by $3.578 million. The CDI Casualty Actuary also reviewed the first and second Quarter Financial Statements of 2013 and determined that although the Company established additional reserves of $3 million for the claims incurred in 2012 and prior accident years, the Company still had a reserve deficiency of $578,000.

(4) Advance Premiums

Pursuant to SSAP No. 53, "Advance premiums result when the policies have been processed, and the premium has been paid prior to the effective date. These advance premiums are reported as a liability in the statutory financial statement and not considered income until due. Such amounts are not included in written premium or the unearned premium reserve." The Company offsets the premium payment received prior to the effective date of the policy with the premium receivable balance, and does not record the advance premium. This practice is not in accordance with SSAP No. 53.

It is recommended that the Company properly report advance premiums and premiums receivable in accordance with SSAP No. 53.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Unclaimed Property (Page 13): It is recommended that the Company escheat policy related unclaimed personal property to the California State Controller's Office and implement procedures to ensure future compliance with CAC, Title 2 – Subchapter 8. It is further recommended that the Company implement an escheat policy that adheres to the regulations of the other applicable states.

Accounts and Records – Information System Controls (Page 13): It is recommended that the Company continue to review its information systems and to make appropriate changes to strengthen its internal controls.

Comment on Financial Statement Items – Advance Premium (Page 20):– It is recommended that the Company properly report advance premiums and premiums receivable in accordance with SSAP No. 53.

Previous Report of Examination

Corporate Records (Page 6): It was recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code Section (CICS) 1200 and 1201. The Company complied with these recommendations.

Accounts and Records - Information Systems Controls (Page 10): It was recommended that the Company review its information systems and make appropriate changes to strengthen internal controls. The Company complied with all of these recommendations subsequent to the current examination date.

Comments on Financial Statement Items - Other Invested Assets (Page 16): Based on the examination findings, it was recommended that:

- The PB LLC obtain a full financial audit of its financial statements to comply with Statements of Statutory Accounting Principles (SSAP) No. 97 and annually submit them to the California Department of Insurance (CDI);
- The Company or the PB LLC obtain independent appraisals of the Petroleum Building at a minimum of every five years and more often should there be a material decrease in the estimated market value;

- In accordance with SSAP No. 5, should there be a material decrease in the market value of the Petroleum Building that is determined to be other than a temporary impairment, the market value should be reduced accordingly;
- The PB LLC obtain a proper title insurance policy;
- The terms of the PB LLC agreement be amended to provide the Company with the right to require any information or account of the PB LLC'S transactions and to inspect its books;
- The Company and the PB LLC provide the CDI with a legal opinion in writing, along with supporting documentation, to confirm that an assignee of an interest in the PB LLC would still have all the rights and privileges of ownership as it would have if it were to have a direct ownership in the PB LLC;
- The Company receive its proportionate share of any profits reported by the PB LLC.

The above prior examination recommendations were not reviewed, as the invested asset noted above was sold during the examination period.

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,

______/S/___________________
Vivien Fan, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California