

REPORT OF EXAMINATION
OF THE
ZNAT INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Insurance Commissioner

A handwritten signature in blue ink, appearing to be "P. DeLoe", is positioned to the right of the text "Insurance Commissioner".

FILED ON June 11, 2021

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
COMPANY HISTORY	4
Capitalization	4
Dividends Paid to Parent	4
MANAGEMENT AND CONTROL.....	4
Management Agreements.....	8
TERRITORY AND PLAN OF OPERATION.....	9
REINSURANCE	10
Intercompany Pooling Agreement.....	10
Assumed.....	11
Ceded	11
Workers' Compensation Business	12
Retroactive Reinsurance.....	12
FINANCIAL STATEMENTS	13
Statement of Financial Condition as of December 31, 2019.....	14
Underwriting and Investment Exhibit for the Year Ended December 31, 2019	15
Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2019.....	16
COMMENTS ON FINANCIAL STATEMENT ITEMS.....	17
SUBSEQUENT EVENTS	17
SUMMARY OF COMMENTS AND RECOMMENDATIONS	18
Current Report of Examination	18
Previous Report of Examination	18
ACKNOWLEDGMENT	19

Los Angeles, California
June 10, 2021

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ZNAT INSURANCE COMPANY

(hereinafter also referred to as the Company). The home office is located at 21255 Califa Street, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was for the period January 1, 2013, through December 31, 2014. This current examination covered the period from January 1, 2015, through December 31, 2019.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *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 might 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.

This was a coordinated examination with California as the facilitating state of the Zenith subgroup of the Fairfax Group of regulated United States (U.S.) property and casualty insurance companies (Fairfax U.S. Group). Delaware is the lead state for the Fairfax U.S. Group examination. The following states participated on the Fairfax U.S. Group examination: Arkansas, Connecticut, Delaware, Florida, New Jersey, and New York. The examination was conducted concurrently with that of the Company’s U.S. affiliates. The companies in the Fairfax U.S. Group and their state of domicile are summarized as follows by subgroups:

Group/Company	NAIC CoCode	Domiciled State
ZENITH GROUP		
Zenith Insurance Company	13269	CA
ZNAT Insurance Company	30120	CA

Group/Company	NAIC CoCode	Domiciled State
RIVERSTONE GROUP		
Commonwealth Insurance Co of America ⁽¹⁾	12220	DE
TIG Insurance Co	25534	CA

Group/Company	NAIC CoCode	Domiciled State
ALLIED WORLD GROUP⁽²⁾		
Allied World National Assurance Company	10690	NH
Allied World Assurance Company (U.S.) Inc.	19489	DE
Allied World Surplus Lines Insurance Company	24319	AK
Allied World Specialty Insurance Company	16624	DE
Allied World Insurance Company	22730	NH
Vantapro Specialty Insurance Company	44768	AR
Vault Reciprocal Exchange	16186	FL
Vault E&S Insurance Company	16237	AR

(1) TIG Insurance Company sold Commonwealth Insurance Company of America to Brit Insurance USA Holdings Inc., effective April 30, 2018.

(2) Fairfax Financial Holdings Limited and Allied World Assurance Company Holdings, Ltd recently announced, in a November 12, 2020 press release, that they have, through their subsidiaries, entered into an agreement to sell their majority interest in Vault Reciprocal Exchange and Vault E&S Insurance Company. The transaction is expected to close during the first quarter of 2021.

Group/Company	NAIC CoCode	Domiciled State
CRUM & FORSTER GROUP		
United States Fire Insurance Company	21113	DE
Crum & Forster Specialty Insurance Company	44520	DE
North River Insurance Company	21105	NJ
First Mercury Insurance Company	10657	DE
Crum & Foster Indemnity Company	31348	DE
Seneca Ins Company Inc.	10936	NY
Seneca Specialty Insurance Company	10729	DE
Crum & Forster Insurance Company	42471	NJ
American Underwriters Insurance Company	10251	AR
MTAW Insurance Company	16498	DE

Group/Company	NAIC CoCode	Domiciled State
HUDSON GROUP⁽³⁾		
Hudson Insurance Company	25054	DE
Hudson Excess Insurance Company	14484	DE
Hudson Specialty Insurance Company	37079	NY

(3) 100% owned by Odyssey Re Group below

Group/Company	NAIC CoCode	Domiciled State
ODYSSEY RE GROUP		
Greystone Insurance Company	10019	CT
Odyssey Reinsurance Company	23680	CT

COMPANY HISTORY

Capitalization

As of December 31, 2019, the Company had 25,000 shares of \$240 par value common stock authorized, of which 13,000 were issued and outstanding.

Dividends Paid to Parent

During the period under review, the Company has paid ordinary dividends in cash to Zenith Insurance Company in the following amounts:

- \$2.7 million on April 28, 2015
- \$2.6 million on May 20, 2016
- \$2.7 million on December 5, 2017
- \$2.5 million on December 6, 2018
- \$2.8 million on December 6, 2019

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Zenith Insurance Company (ZIC), which is a wholly-owned subsidiary of Zenith National Insurance Corp. (ZNIC), which is a wholly-owned indirect subsidiary of Fairfax Financial Holdings Limited (Fairfax), a Canadian financial services holding company, whose common stock is publicly traded on the Toronto Stock Exchange. Fairfax is principally engaged in property and casualty insurance, reinsurance, and associated investment management.

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within

the holding company system as of December 31, 2019 (except as otherwise noted, all ownership is 100%):

- Fairfax Financial Holdings Limited (Canada)
 - CRC Reinsurance Ltd (Barbados)
 - TRG Holding Corporation (Delaware) (31.49%)
 - Hamblin Watsa Investment Counsel Ltd. (Canada)
 - Advent Capital (Holdings) PLC (England & Wales) (56.61%)
 - 1102952 B.C. Unlimited Liability Holding Company (British Columbia)
 - Allied World Assurance Company Holdings, Ltd (Bermuda) (70.11%)
 - Allied World Assurance Company Holdings I, Ltd (Bermuda)
 - Allied World Assurance Company, Ltd (Bermuda)
 - Peak Achievement Athletics, Inc. (17.84% v / 15.31% e)
 - Seaspan Corporation (4.17%)
- FFHL Group Ltd. (Canada)
 - Northbridge Financial Corporation (Canada)
 - Northbridge General Insurance Corporation (Canada)
 - Brit Limited (England & Wales) (89.26%)
 - Brit Insurance Holdings Limited (England & Wales)
 - Brit Insurance USA Holdings, Inc. (Illinois)
 - Commonwealth Insurance Company of America (Delaware)
 - Brit Insurance Services USA, Inc. (Illinois)
 - Brit USA Services Company, Inc. (Delaware)
 - Fairfax Holdings, Inc. (Connecticut)
 - Fairfax (Barbados) International Corp. (Barbados)
 - TIG Insurance (Barbados) Limited (Barbados)
 - Fairfax Luxembourg Holdings (Luxembourg)
 - Colonnade Insurance S. A. (Luxembourg)
 - TIG (Bermuda) Ltd. (Bermuda)
 - Fairfax (US) Inc. (Delaware)
 - Crum and Forster Holdings, Corp. (Delaware)
 - United States Fire Insurance Company (Delaware)
 - American Underwriters Insurance Company (Arkansas)
 - The Redwoods Group, Inc. (North Carolina)
 - Bail USA (Pennsylvania)
 - Crum & Forster Indemnity Company (Delaware)
 - Crum & Forster SPC (FKA International Travel Ins. Segregated Portfolio)
 - Crum & Forster Insurance Company (New Jersey)
 - The North River Insurance Company (New Jersey)
 - Brownyard Programs, Ltd. (New York)
 - Seneca Insurance Company, Inc. (New York)
 - MTAW Insurance Company, Inc. (Delaware)
 - Seneca Specialty Insurance Company (Delaware)
 - Zenith National Insurance Corp. (Delaware) (0.10%)*
 - Astarta Holding NV (Ukraine) (5.39%)
 - Farmers Edge, Inc. (Canada) (5.73%)

Crum & Forster Insurance Brokers, Inc. (Texas)
 Crum & Forster Specialty Insurance Company (Delaware)
 Zenith National Insurance Corp. (Delaware) (1.90%)*
 First Mercury Insurance Company (Delaware)
 C & F Insurance Agency, Inc (Ohio)
 CoverX Corporation (Michigan)
 Travel Insured International, Inc. (Connecticut)
 DMC Insurance, Inc. (Indiana)
 Wag'n Pet Club, Inc (Texas)
 RiverStone Group LLC (Delaware)
 RiverStone Resources LLC (Delaware)
 RiverStone Claims Management LLC (Delaware)
 E.R. Quinn Co. Inc. (New York)
 Loyola Group, Inc. (New York)
 Rockville Risk Management Associates, Inc. (New York)
 Rockville Quinn Management, LLC (New York)
Zenith National Insurance Corp. (Delaware) (91.93%)*
Zenith Insurance Company (California)
Fairfax India Holdings Corp. (3.71% v / 0.93% e)
ZNAT Insurance Company (California)
Zenith of Nevada, Inc. (Nevada)
1390 Main Street LLC
Zenith Insurance Management Services, Inc. (Florida)
Zenith Captive Insurance Company (Vermont)
Toys "R" Us (Canada) Ltd (28.21%)
HWIC Asia Fund (Mauritius) (various from 1.91% to 27.91%)
Boat Rocker Media Inc. (Canada) (20.45%)
Fairfax Africa Holdings Corporation (Canada) (15.08% v / 7.76% e)
Recipe Unlimited Corporation (Canada) (0.07% v / 1.06% e)
2018296 Alberta ULC (Canada) (5.00%)
AGT Food and Ingredients Inc. (Canada) (3.08%)
Apple Bidco Limited (England & Wales) (6.63%)
Astarta Holding NV (Ukraine) (3.27%)
Peak Achievement Athletics, Inc. (Canada) (3.40% v / 2.83% e)
Farmers Edge, Inc. (Canada) (6.11%)
Davos Brands LLC (Delaware) (10.72%)
EXCO Resources, Inc. (Texas) (1.15%)
Seaspan Corporation (Marshall Islands) (0.33%)
Zenith Development Corp. (Nevada)
 Fairfax Financial (US) LLC (Delaware)
 FFI (US) Inc. (Delaware)
 GMPCI Insurance Company, Ltd. (Cayman Islands)
 American Safety Holdings II Corporation (Delaware)
 Bluestone Agency, Inc. (Arizona)
 Bluestone Surety, Ltd. (Cayman Islands)
 TRG Holding Corporation (Delaware)

TIG Insurance Company (California)
 Recipe Unlimited (Ontario)
 HWIC Asia Fund (Mauritius)
 Apple Bldco (England & Wales) (3.67%)
 Advent Capital (England & Wales) (13.84%)
 EXCO Resources, Inc. (Texas) (2.44%)
 Seaspan Corporation (Marshall Islands) (1.47%)
 Odyssey US Holding, Inc. (Delaware)
 Odyssey Group Holdings, Inc. (Delaware)
 Seaspan Corporation (5.56%)
 Odyssey Reinsurance Company (Connecticut)
 Greystone Insurance Company (Connecticut)
 Hudson Insurance Company (Delaware)
 Hudson Crop Insurance Services (Delaware)
 Hudson Specialty Insurance Company (New York)
 Hudson Excess Insurance Company (Delaware)
 Napa River Insurance Services, Inc. (California)
 Pacific Surety Insurance Agency, Inc. (California)
 Hudson Insurance Services, Inc. (Canada)
 Odyssey Holdings Latin America, Inc. (Delaware)
 Zenith National Insurance Corp. (Delaware) (6.07%)*

*Fairfax (US) Inc. owns 91.93% of ZNIC, with the remaining balance owned by Odyssey Reinsurance Company (6.07%), United States Fire Insurance Company (1.90%), and the North River Insurance Company (0.10%). All owners are 100% indirectly owned by Fairfax.

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, 2019, follows:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Chad J. Helin Westlake Village, California	Executive Vice President and General Counsel Zenith Insurance Company
Jack D. Miller Moraga, California	Chairman of the Board Zenith Insurance Company
Kari L. Van Gundy Chatsworth, California	Chief Executive Officer and President Zenith Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Kari L. Van Gundy Antonio Gaitan	Chief Executive Officer and President Executive Vice President, Chief Financial Officer, and Treasurer
Chad J. Helin	Executive Vice President and General Counsel
Jason T. Clarke	Executive Vice President and Chief Actuary
Davidson M. Pattiz	Executive Vice President and Chief Operating Officer

Management Agreements

Administrative Services Agreement: Effective November 1, 2014, the Company and its parent, Zenith Insurance Company (ZIC), entered into an Administrative Services Agreement with various affiliated United States domiciled insurance companies and insurance service providers. Under the Agreement, the Company and ZIC agree to provide to and accept from the other parties, certain administrative and general services, and facilities, at cost, subject to the terms of the Agreement. Specifically, one insurance company may provide, among other services, such as accounting, underwriting, claims, reinsurance, actuarial, and other administrative services or tasks.

The Agreement is subject to renegotiation at least every three years and may be terminated by either party by giving 60 days prior written notice to the other party.

Inter-Company Tax Allocation Agreement: The Company is a party to an Inter-Company Tax Allocation Agreement, effective May 21, 2010. The Agreement was approved by the CDI on June 14, 2010. The Agreement provides for participants to file a consolidated federal income tax return with ZNIC. Allocation of taxes is based upon separate return calculations with inter-company tax balances payable or receivable being settled in amounts equal to the amounts which would be due to or from federal taxing authorities if separate returns were filed. During the years under examination, the Company incurred federal and foreign income taxes in the amount of \$804,159; \$1,323,738; \$908,940; \$736,762; and \$670,008 for the years 2015, 2016, 2017, 2018, and 2019, respectively.

Investment Management Agreement: The investment portfolio of the Company is managed by Hamblin Watsa Investment Counsel, Ltd. (HWIC), the investment manager for the Fairfax Group of companies, under an Investment Management Agreement dated May 20, 2010, and approved by the CDI on June 14, 2010. During the years under examination, the Company paid HWIC the amounts of \$192,000; 203,000; \$179,000; \$156,000; and \$173,000 for the years 2015, 2016, 2017, 2018, and 2019, respectively.

Administrative Services and Cost Sharing Agreement: ZNIC and its subsidiaries are parties to an Amended and Restated Administrative Services and Cost Sharing Agreement dated November 1, 2018, which covers services and cost-sharing among the following Zenith entities – the Company, ZIC, ZNIC, Zenith Insurance Management Services, and Zenith Captive Insurance Company.

Under the terms of the Agreement, costs of shared facilities, services, and expenses incurred by ZIC are allocated to each party using actual and reasonable costs. During the years under examination, the Company paid ZIC under this Agreement the amounts of \$34.6 million, \$45.2 million, \$46.1 million, \$43.1 million, and \$47.6 million for the years ending December 31, 2015, 2016, 2017, 2018, and 2019, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed to transact multiple lines of property and casualty insurance in the following 29 states:

Alabama	Illinois	Missouri	Ohio	Utah
Arizona	Indiana	Nebraska	Oklahoma	Virginia
Arkansas	Iowa	Nevada	Pennsylvania	Washington
California	Kentucky	New Jersey	South Carolina	West Virginia
Delaware	Michigan	North Carolina	Tennessee	Wyoming
Georgia	Mississippi	North Dakota	Texas	

In 2019, the Company wrote \$128 million of direct premiums. Of these direct premiums, \$64 million (50%) were written in California, \$14 million (10%) were written in Georgia, \$12 million (10%) were written in Illinois, \$10 million (8%) were written in Pennsylvania,

\$8 million (7%) were written in Texas, \$5 million (4%) were written in North Carolina, \$4 million (3%) were written in South Carolina, \$3 million (2%) were written in New Jersey, \$3 million (2%) were written in Alabama, \$2 million (2%) were written in Virginia, and \$3 million (2%) were written in the remaining states. All direct premiums written were in the workers' compensation line of business.

The Company's business is written through approximately 1,200 independent licensed insurance agents. The Company and its insurance affiliate maintain branch offices in Fresno, Los Angeles, Orange, Pleasanton, Roseville, San Diego, and San Francisco, California. Additionally, the Company maintains branch offices in Birmingham, Alabama; Hollywood, Orlando, and Sarasota, Florida; Itasca and Springfield, Illinois; Charlotte, North Carolina; East Norriton, Pennsylvania; and Austin and Dallas, Texas.

REINSURANCE

Intercompany Pooling Agreement

The Company is a party to an Amended and Restated Reinsurance and Pooling Agreement with its parent, Zenith Insurance Company, effective January 1, 2008. Under this Agreement, business is pooled, and premiums, losses, and expenses are reapportioned and shared by the companies as follows:

<u>Pool Member</u>	<u>Percentage</u>
Zenith Insurance Company	98%
ZNAT Insurance Company	2%

Both parties to the pooling agreement are named participants in all workers' compensation reinsurance agreements with non-affiliated reinsurers and have a contractual right of direct recovery from the non-affiliated reinsurers.

The current Agreement, which includes all of its amendments, was approved by the California Department of Insurance (CDI) on February 21, 2008.

Assumed

The Company's assumed business consisted of the intercompany pooling agreement, certain voluntary and mandatory pools, and the runoff of expired assumed reinsurance business.

The following schedule reflects assumed premiums written and known case losses and loss adjustment expense reserves reported by the Company as of December 31, 2019 (000's omitted):

Description	Assumed Premiums	Known Case Losses and LAE Reserves
Intercompany Pooling – Zenith Insurance Company	<u>\$ 14,758</u>	<u>\$ 11,240</u>
Totals - Assumed	<u>\$ 14,758</u>	<u>\$ 11,240</u>

Ceded

The Company maintains excess of loss and catastrophe reinsurance which provides protection up to \$150 million for its workers' compensation losses, including catastrophe losses arising out of earthquakes and acts of terrorism including nuclear, biological, and chemical attacks. In 2019, the Company retained the first \$10 million and the layer from \$20 million to \$50 million of each loss arising from industrial accidents and the first \$50 million of each loss arising out of earthquakes and acts of terrorism. For all other business classes, the Company retained the first \$50 million of each loss.

The following is a summary of the Company's principal ceded reinsurance treaties in force as of December 31, 2019, covering its workers' compensation and property and casualty agriculture business:

Workers' Compensation Business

Type of Contract	Reinsurer's Name (*)	Company's Retention	Reinsurer's Maximum Limits
1 st Excess of Loss	Arch Reinsurance Company (4.75%) Munich Re America Inc. (5%) Odyssey Reinsurance Corp. (5%) Partner Reinsurance Company of the US (10%) Transatlantic Reinsurance Company (10%) Aspen Insurance UK Ltd. (12%) Lloyds of London (43.25%) Odyssey Reinsurance Corp. (10%)	\$10 Million	\$10 Million XS of \$10 Million (1) Reinsurers' Aggregate Limit of Liability \$20 Million on any and all claims
2 nd Excess of Loss	Arch Reinsurance Company (4%) Munich Re America Inc. (5%) Odyssey Reinsurance Corp. (9.5%) Partner Reinsurance Company Ltd (5%) Cincinnati Insurance Co. (5%) Transatlantic Reinsurance Company (2%) Aspen Insurance UK Ltd. (8.25%) Hannover Re Ltd (13.5%) Allied World Assurance Co. (3%) Lloyds of London (34.75%) Odyssey Reinsurance Corp. (10%)	\$30 Million	\$50 Million XS of \$50 Million (1) Reinsurers' Aggregate Limit of Liability \$100 Million any and all claims
3 rd Excess of Loss	Arch Reinsurance Company (2%) Munich Re America Inc. (5%) Odyssey Reinsurance Corp. (6.5%) Cincinnati Insurance Co. (5%) Transatlantic Reinsurance Company (2%) Aspen Insurance UK Ltd. (8.25%) Hannover Re Ltd (13.5%) Allied World Assurance Co. (5%) Lloyds of London (42.75%) Odyssey Reinsurance Corp. (10%)	\$-0-	\$50 Million XS of \$100 Million (1) Reinsurers' Aggregate Limit of Liability \$100 Million any and all claims

(*) All listed reinsurers are authorized.

(1) Includes all terrorism and nuclear, biological, and chemical (NBC) coverage

Retroactive Reinsurance

Pursuant to an Asset Purchase Agreement that was approved by the California Department of Insurance (CDI) on March 31, 1998, the Company's parent, ZIC, acquired substantially all of the assets and certain liabilities of RISCORP, Inc. (RISCORP) and certain of its subsidiaries related to its workers' compensation business.

In connection with the RISCORP acquisition, ZIC entered into an Aggregate Excess of Loss Reinsurance Agreement with Inter-Ocean Reinsurance Company, Ltd. (Inter-Ocean) on August 1, 1998, which provided reinsurance for unpaid loss and allocated loss adjustment expenses assumed from RISCORP up to \$50 million excess of \$182 million.

ZIC paid \$16 million for the coverage. The Agreement was accounted for as retroactive reinsurance as required under Statement of Statutory Accounting Principles No. 62R. The amount of the expected recoveries in excess of \$16.0 million paid under the Agreement was recorded as special surplus.

In May 2018, ZIC commuted this Agreement, received \$3.0 million in cash from Inter-Ocean. As a result of this transaction, \$3.0 million was reclassified from special surplus to unassigned surplus in 2018. The Company participates in an intercompany pooling agreement and recorded a 2% share of this transaction. At December 31, 2019, there was no surplus gain reported as the amount had been commuted. There was no recoverable balance remaining at December 31, 2019.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2014, through December 31, 2019

Statement of Financial Condition
as of December 31, 2019

<u>Assets</u>	<u>Ledger and Non ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 41,518,352	\$	\$ 41,518,352	
Cash and short-term investments	21,622,174		21,622,174	
Investment income due and accrued	288,376		288,376	
Premiums and agents' balances in course of collection	279,874	15,885	263,989	
Premiums, agents' balances, and installments booked but deferred and not yet due (including \$108,620 earned but unbilled premiums)	563,659	10,862	552,797	
Amounts recoverable from reinsurers	6,952		6,952	
Funds held by or deposited with reinsured companies	338		338	
Current federal and foreign income tax recoverable and interest thereon	71,083		71,083	
Net deferred tax asset	488,000		488,000	
Guaranty funds receivable or on deposit	3,808		3,808	
Aggregate write-ins for other than invested assets	<u>292,875</u>	<u>9,558</u>	<u>283,317</u>	
 Total assets	 <u>\$ 65,135,491</u>	 <u>\$ 36,305</u>	 <u>\$ 65,099,186</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 20,924,959	(1)
Reinsurance payable on paid loss and loss adjustment expenses			61	
Commissions payable, contingent commissions and other similar charges			206,465	
Other expenses			442,615	
Taxes, licenses, and fees			130,399	
Unearned premiums			1,748,618	
Advance premiums			80,174	
Ceded reinsurance premiums payable			41,886	
Amounts withheld or retained by company for account of others			205,477	
Payable to parent, subsidiaries, and affiliates			15,310,261	
Aggregate write-ins for liabilities			<u>173,441</u>	
 Total liabilities			 39,264,356	
Common capital stock		\$ 3,120,000		
Gross paid-in and contributed surplus		1,175,000		
Unassigned funds (surplus)		<u>21,539,830</u>		
Surplus as regards policyholders			<u>25,834,830</u>	
 Total liabilities, surplus and other funds			 <u>\$ 65,099,186</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

Statement of Income

Underwriting Income

Premiums earned		\$ 14,699,948
Deductions:		
Losses and loss expenses incurred	\$ 6,868,371	
Other underwriting expenses incurred	<u>5,257,017</u>	
Total underwriting deductions		<u>12,125,388</u>
Net underwriting gain		2,574,560

Investment Income

Net investment income earned	\$ 1,085,729	
Net realized capital gain	<u>93,495</u>	
Net investment gain		1,179,224

Other Income

Net gain (loss) from agents' or premium balances charged off (amount recovered \$15,972 amount charged off \$37,818)	<u>\$ (21,846)</u>	
Total other income		<u>(21,846)</u>
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		3,731,938
Dividends to policyholders		<u>541,382</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		2,190,556
Federal and foreign income taxes incurred		<u>670,008</u>
Net income		<u>\$ 2,520,548</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		\$ 26,102,179
Net income	\$ 2,520,548	
Change in net deferred income tax	9,000	
Change in nonadmitted assets	3,102	
Dividends to stockholders	<u>(2,800,000)</u>	
Change in surplus as regards policyholders for the year		<u>(267,350)</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 25,834,830</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2014 through December 31, 2019

Surplus as regards policyholders,
 December 31, 2014 per Examination \$ 26,904,684

	Gain in Surplus	Loss in Surplus	
Net income	\$ 12,777,614	\$	
Change in net deferred income tax		512,000	
Change in nonadmitted assets		10,347	
Dividends to stockholders		13,290,000	
Aggregate write-ins for losses in surplus		35,121	
Total gains and losses	\$ 12,777,614	\$ 13,847,468	

Net decrease in surplus as regards policyholders (1,069,854)

Surplus as regards policyholders,
 December 31, 2019, per Examination \$ 25,834,830

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by the Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2019, were found to be reasonably stated and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the coronavirus disease (COVID-19) a pandemic. The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impacted the U.S. and global financial markets. The examination reviewed the potential impact of the pandemic to the Company and noted minimal impact on the Company's business operations as of the date of this report. However, a significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. The California Department of Insurance continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

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,

Richard B. Foster, CFE
Examiner-In-Charge
INS Regulatory Insurance Services
Representing the
Department of Insurance
State of California

Grace Asuncion, CFE
Financial Examinations Supervisor
Department of Insurance
State of California