

REPORT OF EXAMINATION
OF THE
ZENITH INSURANCE COMPANY
AS OF
DECEMBER 31, 2023

Insurance Commissioner

A handwritten signature in blue ink, appearing to read "DeLa", is positioned to the right of the title "Insurance Commissioner".

Filed on June 13, 2025

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Los Angeles, California
April 15, 2025

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ZENITH INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's 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 as of December 31, 2019. This examination covered the period from January 1, 2020 through December 31, 2023.

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 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 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, New Hampshire, 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
RIVERSTONE GROUP		
TIG Insurance Company	25534	CA
ALLIED WORLD GROUP ⁽¹⁾		
Allied World National Assurance Company	10690	NH
Allied World Assurance Company (U.S.) Inc.	19489	DE
Allied World Surplus Lines Insurance Company	24319	AR
Allied World Specialty Insurance Company	16624	DE
Allied World Insurance Company	22730	NH
Vantapro Specialty Insurance Company	44768	AR

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
HUDSON GROUP ⁽²⁾		
Hudson Insurance Company	25054	DE
Hudson Excess Insurance Company	14484	DE
Hilltop Specialty Insurance Company ⁽³⁾	37079	NY
ODYSSEY RE GROUP		
Greystone Insurance Company	10019	CT
Odyssey Reinsurance Company	23680	CT

- (1) Fairfax Financial Holdings Limited and Allied World Assurance Company Holdings, Ltd sold their majority interest in Vault Reciprocal Exchange and Vault E&S Insurance Company in March 2021.
- (2) 100% owned by Odyssey Re Group below
- (3) Hudson Specialty Insurance Company name changed to Hilltop Specialty Insurance Company, effective October 26, 2020

COMPANY HISTORY

Capitalization

As of December 31, 2023, the Company had 20,000 shares of \$210 par value common stock authorized, issued, and outstanding. All outstanding shares are owned by Zenith National Insurance Corp. (ZNIC).

The Company also had 20,000 shares of \$5 par value preferred stock authorized, of which none were issued or outstanding.

Dividends Paid to Parent

During the period under review, the Company has paid ordinary dividends through a combination of cash and securities to ZNIC in the following amounts:

<u>Year</u>	<u>Amount</u>
2020	\$ 35,000,000
2021	40,000,000
2022	70,000,000
2023	45,000,000
2024	105,000,000*
Total	<u>\$ 295,000,000</u>

* Subsequent to the examination date

Dividends Received from Subsidiary

During the period under review, the Company received the following ordinary dividends from its subsidiary, ZNAT Insurance Company (ZNAT), in the following amounts:

<u>Year</u>	<u>Amount</u>
2020	\$ 2,500,000
2021	2,400,000
2022	2,300,000
2023	2,100,000
2024	2,000,000*
Total	<u>\$ 11,300,000</u>

* Subsequent to the examination date

MANAGEMENT AND CONTROL

The Company 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 service holding company, whose common stock is publicly traded on the Toronto Stock Exchange (TSX). Fairfax is principally engaged in property and casualty insurance, reinsurance, and associated investment management.

The following abridged organizational chart, which is limited to Fairfax along with its subsidiary insurance companies, depicts the Company's relationship within the Fairfax holding company system as of December 31, 2023 (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)
 - 1102952 B.C. Unlimited Liability Holding Company (British Columbia)
 - Allied World Assurance Company Holdings, Ltd (Bermuda) (83.41%)
 - Allied World Assurance Company Holdings I, Ltd (Bermuda)
 - Allied World Assurance Company, Ltd (Bermuda)
 - Allied World Assuarance Holding (Ireland) Ltd. (Bermuda)
 - Allied World Assurance Holding (U.S.) Inc. (Delaware)
 - Allied World National Assurance Company (New Hampshire)
 - Allied World Insurance Company (New Hampshire)
 - AW Underwriters Inc. (Delaware)
 - Allied World Specialty Insurance Company (Delaware)
 - Allied World Surplus Lines Insurance Company (Delaware)
 - Vantapro Specialty Insurance Company (Arkansas)
 - FFHL Group Ltd. (Canada)
 - Northbridge Financial Corporation (Canada)
 - Northbridge General Insurance Corporation (Canada)
 - Brit Limited (England & Wales) (8%)
 - Brit Insurance Holdings Limited (England & Wales)
 - Fairfax Holdings, Inc. (Connecticut)
 - Fairfax (Barbados) International Corp. (Barbados)
 - Fairfax Luxembourg Holdings (Luxembourg)
 - Colonnade Insurance S. A. (Luxembourg)
 - TIG (Bermuda) Ltd. (Bermuda)
 - Fairfax (US) Inc. (Delaware)
 - FFI (U.S.) LLC (Delaware)

Fairfax FFI (U.S.) LLC (Delaware)
 Cairo Mezz PLC (0.13%) (Delaware)
 Crum and Forster Holdings, Corp. (Delaware)
 United States Fire Insurance Company (Delaware)
 Fairfax India Holding Corporation (13.03% v / 9.69% e) (Canada)
 Helios Fairfax Partner Corporation (4.31% v / 2.25% e) (Canada)
 Crum & Forster Specialty Insurance Company (Delaware)
 HWIC Asia Fund (Mauritius)
 Grivalia Hospitality S.A. (7.51%) (Greece)
 Crum & Forster Insurance Broker, Inc (Texas)
 Crum & Forster SPC Reinsurance Company (Cayman Islands)
 Zenith National Insurance Corp. (1.90%) (Delaware)*
 American Underwriters Insurance Company (Arkansas)
 The Redwoods Group, Inc. (North Carolina)
 Crum & Forster Services India Private Limited (99.99%) (India)
 MTAW Insurance Company (Delaware)
 Monitor Life Insurance Company of New York (New York)
 Partners Managing General Underwriters, LLC (Delaware)
 Workforce Insurance Underwriters, LLC (68.42%) (Delaware)
 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)
 Seneca Insurance Company, Inc. (New York)
 Seneca Specialty Insurance Company (Delaware)
 HWIC Asia Fund (Delaware)
 Zenith National Insurance Corp. (Delaware) (0.10%)*
 2018296 Alberta ULC (22.00%) (Alberta)
 Dexterra Group Inc (0.64%) (Alberta)
 Fairfax India Holding Corporation (0.08% v / 0.89% e) (Canada)
 Farmers Edge Inc (11.08%) (Canada)
 Poseidon Acquisition Corp (0.74%) (Marshall Islands)
 Crum & Forster Indemnity Company
 First Mercury Insurance Company (Delaware)
 Fairfax GVAC LP (39.96% LP Interest) (Delaware)
 Crum & Forster SPC
 C & F Insurance Agency, Inc (Ohio)
 CoverX Corporation (Michigan)
 Travel Insured International, Inc. (Connecticut)
 DMC Insurance, Inc. (Indiana)
 RiverStone Group LLC (Delaware)
 RiverStone Resources LLC (Delaware)
 Riverstone Services LLC
 RiverStone Claims Management LLC (Delaware)
 E.R. Quinn Co. Inc. (New York)

Loyola Group, Inc. (New York)
 Arya Claims Services, LLC (Delaware)
 Rockville Risk Management Associates, Inc. (New York)
Zenith National Insurance Corp. (Delaware) (91.93%)*
Zenith Insurance Company (California)
 Fairfax India Holdings Corporation (3.75% v/ 1.04% e)
ZNAT Insurance Company (California)
 Zenith of Nevada, Inc. (Nevada)
 1390 Main Street LLC (Delaware)
 Zenith Insurance Management Services, Inc. (Florida)
 Zenith Captive Insurance Company (Vermont)
 HWIC Asia Fund (Mauritius)
 Boat Rocker Media Inc. (Canada) (18.02% v/ 8.93% e)
 Helios Fairfax Partners Corporation (Canada) (8.17% v/ 4.27% e)
 Recipe Unlimited Corporation (Canada) (2.48%)
 2018296 Alberta ULC (Canada) (5.00%)
 AGT Food and Ingredients Inc. (Canada) (3.08%)
 10960934 Canada Inc (25%) (Canada)
 Astarta Holding NV (Ukraine) (3.27%)
 Peak Achievement Athletics, Inc. (Canada) (3.40% v / 2.83% e)
 Farmers Edge, Inc. (Canada) (3.47%)
 EXCO Resources, Inc. (Texas) (1.15%)
 Poseidon Acquisition Corp (1.18%)
 Transportation Recovery Fund L.P. (Cayman Islands) (1.78%)
 Grivalia Hospitality S.A. (Greece) (1.82%)
 Stelco Holdings Inc (Canada) (3.13%)
 FF Meadow Holdings Limited (England & Wales) (20.30%)
 ONX Inc. (Delaware) (3.03%)
 Ovostar Union NV (Cyprus) (10.02%)
 Zenith Development Corp. (Nevada)
 Western Property & Casualty Insurance Company
 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)
 Dexterra Group Inc (2.44%)
 EXCO Resources, Inc. (Texas) (2.44%)
 Poseidon Acquisition Corp (1.68%)
 Transportation Recovery Fund L.P (3.55%)
 Resolution Group Reinsurance (Barbados) Limited

Connerma Reinsurance Company Ltd.
 Odyssey US Holding, Inc. (Delaware)
 Odyssey Group Holdings, Inc. (Delaware)
 Dexterra Group Inc (17.5%)
 Singapore Reinsurance Corporation (8.83%)
 Poseidon Acquisition Corp (1.96%) (Marshall Islands)
 Sterling Road Films (20.00%) (California)
 Stelco Holding Inc (3.77%) (Ontario)
 Odyssey Reinsurance Company (Connecticut)
 Greystone Insurance Company (Connecticut)
 Hudson Insurance Company (Delaware)
 Hudson Crop Insurance Services (Delaware)
 Hilltop 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 at December 31, 2023, follows:

Directors

| <u>Name and Location</u> | <u>Principal Business Affiliation</u> |
|--|--|
| Kari L. Van Gundy
Chatsworth, California | Chief Executive Officer and Chairperson
Zenith Insurance Company |
| Chad J. Helin
Westlake Village, California | Executive Vice President and General Counsel
Zenith Insurance Company |
| Jack D. Miller ^(a)
La Quinta, California | Director
Zenith National Insurance Corp. |

Principal Officers

| <u>Name</u> | <u>Title</u> |
|-----------------------------------|---|
| Kari L. Van Gundy ^(b) | Chief Executive Officer and Chairperson |
| Davidson M. Pattiz ^(b) | President and Chief Operating Officer |
| Antonio Gaitan ^(c) | 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 |

The following changes in Directors and Principal Officers occurred subsequent to the examination date:

- (a) On September 25, 2024, Davidson M. Pattiz was elected as a Director of the Company, succeeding Jack D. Miller, effective January 1, 2025.
- (b) On July 10, 2024, the Company announced the appointment of Davidson M. Pattiz as President and Chief Executive Officer and Kari L. Van Gundy as Chairperson effective January 1, 2025.
- (c) On September 30, 2024, the Company announced the appointment of Elina Baron as Chief Financial Officer following Antonio Gaitan's retirement, effective February 28, 2025.

Management Agreements

Administrative Services and Cost Sharing Agreement: Effective November 19, 2018, and approved by the California Department of Insurance (CDI) on December 4, 2018, the Company entered into an Amended & Restated Administrative Services and Cost Sharing Agreement with Zenith National Insurance Corp. (ZNIC), ZNAT Insurance Company (ZNAT), Zenith Insurance Management Services Inc., and Zenith Captive Insurance Company. Under the terms of the agreement, costs of shared facilities, services, and expenses incurred by the Company are allocated to each party using actual and reasonable costs. During the years under examination, the Company received from ZNAT under this Agreement the amounts of \$41.2 million, \$44.6 million, \$46.4 million, and \$35.0 million for the years ending December 31, 2023, 2022, 2021, and 2020, respectively. The Company paid ZNIC under this Agreement the amounts of \$5.1 million, \$7.1 million, \$3.8 million, and \$4.4 million for the years ending December 31, 2023, 2022, 2021, and 2020, respectively.

Under the terms of the Intercompany Pooling and Reinsurance Agreement described within the Reinsurance section below, the Company received \$7.1 million, \$9.7 million, \$3.9 million, and \$10.3 million for the years ended December 31, 2023, 2022, 2021, and 2020, respectively from ZNAT. The Administrative Services and Cost Sharing Agreement allocation between the Company and ZNAT and the Intercompany Pooling and Reinsurance Agreement should be considered in the aggregate.

Investment Management Agreement: Effective May 20, 2010, and approved by the CDI on June 14, 2010, the Company entered into an Investment Management Agreement with Fairfax Financial Holdings Limited (Fairfax) and Hamblin Watsa Investment Counsel Ltd (HWIC). Under the terms of the agreement, HWIC, a wholly-owned subsidiary of Fairfax, will continuously provide investment advisory and management services to the Company unless terminated by either party with at least 30 days advance written notice. A base fee of 0.30% is payable quarterly after the end of each calendar quarter based on the average of the market value for that period. In addition to the base fee, an incentive fee is paid annually based on the performance of equity securities managed. If the performance equals or exceeds the benchmark of Standard & Poor's 500 index by 200 basis points, the incentive fee is determined as a continuous rate of 10 basis points for every 100 basis points of outperforming the benchmark. If performance is less than the benchmark, the base fee will be reduced to 90% of the current fee. Fairfax is to collect fees from the Company and distribute them back to HWIC. During the years under examination, the Company paid the amounts of \$5.0 million, \$4.9 million, \$4.8 million, and \$4.3 million for the years ending December 31, 2023, 2022, 2021, and 2020, respectively.

Inter-Company Loan Agreement: Effective June 3, 2016, and approved by the CDI on May 23, 2016, the Company entered into an Inter-Company Loan Agreement with its subsidiary, ZNAT. Under the terms of the agreement, the Company may loan to ZNAT up to a maximum of \$200 million total in single or multiple transactions, and ZNAT may loan to the Company up to a maximum of \$50 million total in single or multiple transactions. For the loan to be provided, its principal sum, maturity date, and interest rate (which is based on the applicable U.S. Treasury Constant Maturity Rate most closely related to the term of the loan at the time of inception) must be approved and accepted by each of the

Boards of Directors of the lending and borrowing Party and be executed by Promissory Note. During 2020, \$28 million was loaned from ZNAT to the Company and repaid within the same year. ZNAT earned \$70,545 as interest income during the period the loan was outstanding from the Company. No subsequent amounts were loaned under the agreement.

Inter-Company Tax Allocation Agreement: Effective May 21, 2010, and approved by the CDI on June 14, 2010, the Company entered into an Inter-Company Tax Allocation Agreement with ZNIC and its subsidiaries. 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 paid the amounts of \$42.4 million, \$12.9 million, \$23.1 million, and \$14.3 million for the years ending December 31, 2023, 2022, 2021, and 2020, respectively.

Claims Administration Agreement (TIG): Effective March 1, 2013, amended January 1, 2015, and approved by the CDI on December 22, 2014, the Company entered into a Claims Administration Agreement with its affiliate, TIG Insurance Company (TIG). Under the terms of the agreement, the Company is to continuously provide claims handling administration for TIG's workers' compensation claims, at a cost of 125% for services performed, due within 30 days after delivery of the services administered report. During the years under examination, the Company received service income from TIG for this agreement of \$2.3 million and \$6.2 million for the years ended December 31, 2021 and 2020, respectively. The agreement terminated on June 30, 2021, due to TIG being acquired by an affiliate; TIG became part of the new agreement with RiverStone Group LLC (RiverStone), as noted below.

Administrative Services Agreement (RiverStone): Effective July 9, 2021, and approved by the CDI on June 30, 2021, the Company entered into an Administrative Services Agreement with RiverStone and affiliated companies, including TIG, ZNIC, and certain subsidiaries. Under the terms of the agreement, each party may, from time to time,

provide and receive administration services such as those related to accounting, underwriting, claims, reinsurance, actuarial, telecommunications and electronic data, processing, legal services, preparation of regulatory reports, purchase or contracting and/or access to contracted vendors or services, human resources, consulting, and other administrative services or tasks. This agreement is continuous and 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. Compensation for services is calculated based on cost allocation and due within 30 days after the end of each quarter in which the services are rendered. During the years under examination, the Company received service income from Riverstone for TIG, a subsidiary of RiverStone, as part of this agreement for \$3.3 million, \$3.6 million, and \$2.3 million for the years ended December 31, 2023, 2022, and 2021. The Company also received service income from RiverStone related to the administration of certain claims assumed by RiverStone in 2021 from Crum & Forster Insurance Company, a subsidiary of Fairfax. As part of this agreement, the Company received \$3.2 million, \$2.5 million, and \$0 for the years ended December 31, 2023, 2022, and 2021.

Administrative Services Agreement (Hudson): Effective January 25, 2023, and approved by the CDI on January 24, 2023, the Company entered into an Administrative Services Agreement with Hudson Crop Insurance Services Inc., Hudson Excess Insurance Company, Hudson Insurance Company, Napa River Insurance Services Inc., ZNIC and certain subsidiaries. Under the terms of the agreement, each party may, from time to time, provide and receive administration services such as those related to accounting, underwriting, claims, reinsurance, actuarial, telecommunications and electronic data processing, legal services, preparation of regulatory reports, purchase or contracting and/or access to contracted vendors or services, human resources, consulting, and other administrative services or tasks. This agreement is continuous and 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. Compensation for services is due within 30 days after the end of each quarter in which the services are rendered. The Company did not engage in any transactions under this agreement during the years under examination.

Related Party Transactions

In March 2020, the Company sold a portion of its fair value option investment in certain municipal bonds, at fair value, to various subsidiaries of Allied World Assurance Company Holdings, Ltd. (collectively Allied), an affiliate of Fairfax and the Company. The Company received \$21.6 million in U.S. treasury notes, \$13.2 million in cash and recorded realized gains of \$12.1 million on the sale. In April 2020, the Company sold its remaining investment in these municipal bonds, at fair value, to various subsidiaries of Allied for \$31.3 million in cash and \$17.1 million in commercial paper and recorded realized gains of \$14.7 million.

The Company owns an investment in the common stock of Recipe Unlimited Corp. (Recipe), an affiliate of Fairfax and the Company. In March 2020, the Company exchanged its subordinate voting shares for an equal number and equal price of multiple voting shares in Recipe from RiverStone Insurance (UK) Limited and TIG Insurance (Barbados) Limited, both affiliates of Fairfax and the Company. The Company did not recognize any realized gain or loss on this exchange transaction. In October 2022, Fairfax, through its subsidiaries, including the Company, acquired all the multiple voting and subordinate voting shares of Recipe, an affiliate of Fairfax and the Company, other than those shares already owned by Fairfax and its affiliates. The Company's share of this acquisition was \$8.1 million. The transaction increased Fairfax's equity ownership in Recipe, and Recipe was subsequently delisted from the TSX. The Company continues to account for its investment in Recipe common stock using the equity method of accounting. As of December 31, 2023, 2022, 2021, and 2020, the carrying value of the Company's investment in Recipe common stock was \$11.8 million, \$16.5 million, \$9.4 million, and \$9.3 million, respectively.

The Company owns an equity-method investment in the common stock of Boat Rocker Media Inc. (Boat Rocker), a majority-owned subsidiary of Fairfax and an affiliate of the Company. In November 2020, Boat Rocker issued additional shares in exchange for a payable from its original shareholders. The Company recorded a \$1.1 million additional investment in Boat Rocker with a corresponding amount as payable for securities as of

December 31, 2020. On January 1, 2021, the payable for securities was settled when Boat Rocker declared an in-kind dividend distribution of \$1.1 million. In March 2021, Boat Rocker completed its Initial Public Offering (IPO), issuing 18.9 million common stock shares at CAD \$9.00 per share. The common stock shares began trading on the TSX under the ticker symbol: BRMI. Prior to the IPO, Boat Rocker effected a 1.6016 for 1 stock split on its common shares outstanding, resulting in an increase in shares issued and outstanding. In 2021, the Company recorded a net increase in the carrying value of this investment of \$15.1 million, primarily due to the IPO transactions. In December 2023, due to the extent and duration of the decline in the market value of this investment compared to its carrying value, the Company recorded other-than-temporary impairment of \$6.0 million. As of December 31, 2023, 2022, 2021, and 2020, the carrying value of the Company's equity-method investment in Boat Rocker common stock was \$4.8 million, \$15.6 million, \$18.2 million, and \$4.5 million, respectively.

The Company owned an equity-method investment in the common stock of Fairfax Africa Holdings Corporation (FAH), a majority-owned subsidiary of Fairfax and an affiliate of the Company. During the year ended December 31, 2020, the Company recorded an other-than-temporary impairment of \$32.5 million for FAH as a result of the extent and duration that the fair value of FAH's common stock had been below carrying value. In December 2020, FAH completed its strategic transaction with Helios Holdings Limited (Helios), pursuant to which Helios contributed certain fee streams to FAH in exchange for a 45.9% equity and voting interest in the share capital of FAH upon closing. Following the transaction, FAH was renamed Helios Fairfax Partners Corporation (HFP). HFP common stock continues to be publicly traded on the TSX under the new ticker symbol: HFPC.U; and the Company continues to record its investment in HFP using the equity method of accounting. As of December 31, 2023, 2022, 2021, and 2020, the carrying value of the Company's equity method investment in HFP was \$9.2 million, \$12.1 million, \$12.2 million, and \$13.7 million, respectively.

The Company owned an equity-method investment in the common stock of Toys R Us Canada (Toys), a wholly-owned subsidiary of Fairfax. In 2020, the Company's share of Toys' cumulative losses exceeded the Company's carrying value of Toys. As a result,

after recording losses in equity of Toys of \$11.3 million in 2020, the remaining unrecorded share of Toys' losses as of December 31, 2020, was approximately \$13.7 million. In August 2021, Fairfax, including the Company, sold Toys for purchase consideration, which consisted principally of a monthly royalty on future revenue from Toys (Contingent Consideration Receivable, or CCR). In the years ended December 31, 2023, 2022, and 2021, the Company received \$2.6 million, \$2.5 million, and \$1.9 million, respectively, in cash related to the CCR from Toys. As of December 31, 2023, 2022, and 2021, the carrying value of the CCR was \$11.8 million, \$15.7 million, and \$18.7 million, respectively, including unrealized gains on foreign exchange.

The Company owned common stock shares, preferred stock shares, and equity warrants of Atlas Corp. (Atlas, formerly Seaspan Corporation, or Seaspan), an affiliate of Fairfax and the Company. In February 2020, Seaspan completed a holding company reorganization to create Atlas, whereby Atlas became the parent of Seaspan (the Reorganization). Prior to the Reorganization, the Company owned \$5.0 million par value of 5.50% unsecured debentures issued by Seaspan due in 2025 and 0.8 million shares of common stock of Seaspan. As part of the Reorganization, Seaspan shareholders received equal shares of Atlas common shares for each Seaspan common share held immediately prior to the closing of the Reorganization. Seaspan shareholders, including the Company, exchanged their shares in Seaspan for equal shares in Atlas, with no change in ownership percentage. Concurrently with the Reorganization, the Company invested \$10 million in 5.50% unsecured debentures issued by Seaspan due March 2027 (collectively, Seaspan bonds).

In conjunction with the Reorganization, in February 2020, Atlas acquired all of the shares issued and outstanding of Apple Bidco Limited (AB), an affiliate of Fairfax and the Company, from AB shareholders, including the Company, in an all-stock transaction. Accordingly, the Company derecognized its equity-method investment in AB common stock, recorded a net pre-tax loss of \$11.7 million, and increased the carrying value of its investment in Atlas by \$21.1 million, the fair value of the AB common stock exchanged. In the years ended December 31, 2021, and 2020, the Company recorded dividend income of \$1.4 million and \$1.2 million, respectively. As of December 31, 2021, and 2020,

the carrying value of the Company's equity-method investment in Atlas common stock was \$35.2 million and \$35.3 million, respectively.

In April 2021, Fairfax signed an amendment agreement in relation to the original sale of AB to Atlas to potentially compensate Atlas for certain amounts and balances (AB Indemnity). In the year ended December 31, 2021, the Company recorded its share of realized losses related to the AB Indemnity of \$13.3 million and an additional \$1.5 million of realized foreign exchange losses for its share of the related foreign exchange indemnification. As of December 31, 2021, the carrying value of the Company's outstanding AB Indemnity liability was \$11.7 million. As part of the agreement, Atlas also issued warrants to Fairfax and the Company with an exercise price of \$13 per share, expiring in April 2026, including an option for Atlas to require Fairfax and the Company to exercise these warrants after the fourth year if Atlas' stock price at that time equals or exceeds \$26 per share (Atlas no-cost warrants). The Company received 0.6 million shares of these warrants at zero cost. As of December 31, 2021, the carrying value of the Company's investment in Atlas no-cost warrants was \$3.0 million.

In June 2021, Fairfax entered into an exchange and amendment transaction with Atlas in relation to its investment in Seaspan bonds, whereby Fairfax affiliates, including the Company, exchanged the original principal plus accrued interest of their Seaspan bonds due in 2026 and 2027 for newly issued Atlas preferred shares (Atlas Series J - 7.00% Cumulative Redeemable Perpetual Preferred, or Atlas preferred stock) and equity warrants with an exercise price of \$13.71 per share (Atlas warrants). The Company exchanged \$10.0 million par value of its Seaspan bonds due in 2027, with a fair value of \$10.1 million, for 0.4 million shares of Atlas preferred stock (cost basis of \$10.0 million) and 33,000 shares of Atlas warrants (cost basis of \$0.1 million) and recorded a realized gain of \$0.1 million on the conversion. In August 2021, Atlas redeemed all of its remaining Seaspan Bonds due in 2025 and 2026 held by Fairfax and affiliates for cash at the original principal plus accrued interest. The Company redeemed its remaining \$5.0 million par value Seaspan bonds due in 2025 and recorded a \$0.3 million realized gain on the redemption. As of December 31, 2021, the carrying value of the Company's investments in Atlas preferred stock and Atlas warrants was \$10.0 million and \$0.2 million,

respectively.

On October 31, 2022, a consortium composed of Fairfax and certain other shareholders and directors of Atlas, and affiliate of both Fairfax and the Company (collectively, the Consortium), signed a definitive agreement to acquire all of the outstanding common shares of Atlas, other than those shares owned by the Consortium, at a cash purchase price of \$15.50, plus payment of all ordinary course quarterly dividends up until closing of the transaction (Merger Proposal). Pursuant to the transaction, Fairfax would transfer its approximate 45% interest in Atlas, inclusive of Fairfax's interest upon exercise of its holdings in Atlas equity warrants in January 2023 (see below), into an entity formed by the Consortium and is not obligated to purchase any additional interest not already owned by the Consortium. The other members of the Consortium have committed to fully fund the cash component of the transaction, and Fairfax would continue its ownership in Atlas as part of the Consortium. As of December 31, 2022, and 2021, the carrying value of the Company's equity-method investment in Atlas common stock was \$37.0 million and \$35.2 million, respectively. The Company also owned investments in Atlas preferred stock with the carrying value of \$9.0 million and \$10.0 million and Atlas equity warrants with the carrying value of \$1.5 million and \$3.2 million as of December 31, 2022, and 2021, respectively. In January 2023, the Company exercised all of the Atlas equity warrants for a cash payment of \$8.5 million, in exchange for 0.7 million of Atlas common stock shares recorded at a cost of \$10.0 million and recorded a realized gain of \$1.5 million on the exercise of these warrants. Separately, on March 9, 2023, Fairfax, including the Company, received 0.5 million of Atlas common stock shares that were previously held back at the time of the closing of the sale transaction of APR Energy (known as AB, an affiliated investment of both Fairfax and the Company) to Atlas on February 28, 2020. The Company recorded its portion of Atlas common stock shares received of 0.1 million at a cost of \$0.9 million, with an offset recorded in realized gain - other (effectively recognizing additional realized gain on the sale of APR Energy to Atlas). As of December 31, 2023, 2022, 2021, and 2020, the carrying value of the Company's equity-method accounted investment in Poseidon (formerly, Atlas) common stock was \$51.5 million, \$37.0 million, \$35.2 million, and \$35.3 million, respectively. The Company also owns

preferred stock issued by Atlas, with the carrying value of \$9.6 million and \$9.0 million as of December 31, 2023, and 2022, respectively.

The Company owns an equity-method investment in the common stock of Farmers Edge, Inc. (FE), a majority-owned subsidiary of Fairfax and an affiliate of the Company. In March 2021, FE completed an IPO, issuing 7.4 million common stock shares at Canadian Dollar \$17.00 per share. The common stock shares began trading on the TSX under the ticker symbol: FDGE. All outstanding FE convertible debentures held by Fairfax through its subsidiaries, including the Company (FE affiliate loans), which included original principal and accrued interest, were exchanged for 114.6 million pre-IPO common shares. All FE common shares outstanding prior to the IPO were then consolidated through a 7 to 1 reverse stock split. In connection with the conversion of FE affiliate loans, the Company recorded a realized gain of \$0.8 million and increased the cost basis of its investment in FE common stock by \$9.3 million, representing additional shares received at a fair value equal to the IPO price. In the years ended December 2022 and December 2021, the company recorded other-than-temporary impairments of \$3.4 million and \$21.6 million, respectively, as a result of the extent and duration that the fair value of FE's common stock had been below carrying value. As of December 31, 2023, 2022, 2021, and 2020, the carrying value of the Company's equity-method investment in FE common stock was zero, \$0.3 million, \$3.7 million, and \$0 million, respectively.

In the years ended December 31, 2023, and 2022, the Company received dividend distributions from its investment in the common stock of Stelco Holdings Inc. (Stelco), a Canadian publicly traded company, of \$5.9 million and \$5.6 million. In August 2022, Stelco repurchased its common shares resulting in an increase to Fairfax's ownership, and thus Stelco became an affiliate of Fairfax and the Company. The Company commenced the equity method of accounting for Stelco in the third quarter of 2022 and recorded a realized gain of \$37.1 million to step up its cost basis to the fair value of the investment on the day Stelco became an affiliate. As of December 31, 2023, and 2022, the carrying value of the Company's equity-method investment in Stelco common stock was \$38.6 million and \$42.0 million, respectively.

In July 2023, the Company sold two of its mortgage loan investments acquired in June 2023 as part of the Kennedy Wilson (KW)/Pacific Western Bank transaction for \$19.9 million in cash to HWIC Property Fund II, a wholly-owned subsidiary of Fairfax. Proceeds represent fair value at the time of sale, which also approximates amortized cost.

In September 2023, Fairfax, through its subsidiaries, acquired an additional common stock of Ovostar Union Public Company (Ovostar), concluding to have significant influence over Ovostar, and Ovostar became an affiliate of Fairfax and the Company simultaneously with the acquisition. The Company's share of this investment was \$9.8 million, accounted for as an affiliated common stock investment using the equity method of accounting. As of December 31, 2023, the carrying value of the Company's equity-method investment in Ovostar common stock was \$9.9 million.

In November 2023, Fairfax, through its subsidiaries, including the Company, acquired the majority of the economic interest in FF Meadow Holdings Limited (Meadow). Meadow is a privately held UK-based ingredients company focusing on the dairy, confectionery, and plant-based industries. Meadow became an affiliate of Fairfax and the Company simultaneously with this investment. The Company's share of this acquisition was \$50.4 million, and it accounts for this affiliated common stock investment using the equity method of accounting. As of December 31, 2023, the carrying value of the Company's investment in Meadow was \$50.4 million.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2023, the Company was licensed to transact multiple lines of property and casualty insurance in the District of Columbia and all fifty states.

In 2023, the Company wrote \$607.9 million of direct premiums. Of these direct premiums, \$393.0 million (64.6%) were written in California, \$137.0 million (22.5%) were written in Florida, \$13.8 million (2.3%) in Pennsylvania, and \$9.5 million (1.6%) in New Jersey, with the remaining \$54.6 million (9.0%) written in all other states combined. The Company wrote \$477.3 million, or 78.5% of its direct premiums, in the workers' compensation line

of business, with the remaining business in other property and casualty (P&C) lines from its P&C Agribusiness operations.

The Company's business is written through approximately 1,200 independent licensed insurance agents throughout all states. Business is produced exclusively through independent agents with local office contact points. The Company and its insurance affiliate maintain branch offices in Dublin, Fresno, Orange, Roseville, San Diego, San Francisco, and Woodland Hills, California. Additionally, the Company maintains regional offices in Itasca and Springfield, Illinois; Orlando and Sarasota, Florida; Charlotte, North Carolina; East Norriton, Pennsylvania; and Austin, Texas.

REINSURANCE

Intercompany Reinsurance Agreement

Effective January 1, 2008, the Company is a party to an Amended and Restated Intercompany Reinsurance and Pooling Agreement with its subsidiary, ZNAT Insurance Company (ZNAT). Under the terms of this agreement, business is pooled, and premiums, losses, and expenses are reapportioned and shared as follows:

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

The current agreement, which includes all of its amendments, was approved by the CDI on March 14, 2008.

Assumed

Effective May 1, 2021, the Company entered into reinsurance agreements with various subsidiaries of Allied World Assurance Company Holdings, Ltd. (collectively Allied), an affiliate of Fairfax and the Company, under which Allied cedes a portion of its global professional and medical liability business under quota share and excess of loss reinsurance contracts on a risk-attaching basis. For the quota share agreement, the

Company's participation rate as a reinsurer was 6%. For excess of loss reinsurance, the Company's participation rate as a reinsurer was 2%. These reinsurance agreements were renewed, effective May 1, 2022, and May 1, 2023.

Effective July 1, 2022, the Company entered into a Risk-Attaching Quota Share Agreement under which Allied cedes a portion of its cyber business written under a program with CFC Underwriting Limited to the Company. The Company's participation rate as a reinsurer was 25%. This agreement was renewed, effective July 1, 2023.

The following schedule reflects assumed premiums written and known case losses and loss adjustment expense reserves reported by the Company as of December 31, 2023 (000's omitted):

| Description | Assumed Premiums | Known Case Losses and LAE Reserves |
|---|-------------------|------------------------------------|
| Intercompany Pooling – ZNAT Insurance Company | \$ 116,998 | \$ 97,453 |
| Intercompany Allied | 43,644 | 2,463 |
| Voluntary and Mandatory Pools | 6,675 | 9,709 |
| Runoff of Expired Assumed Business | 0 | 2,447 |
| Totals - Assumed | <u>\$ 167,317</u> | <u>\$112,072</u> |

Ceded

Effective April 1, 2023, for the workers' compensation line, the Company actively participates in the reinsurance market and maintains excess of loss and catastrophe reinsurance providing protection up to \$150 million for losses, including catastrophe losses arising out of earthquakes and acts of terrorism including nuclear, biological, chemical and radiological attacks (NBCR). The Company also maintains a multiple cedant reinsurance contract for the \$50 million excess of \$100 million layer shared with other Fairfax affiliates. For the Agriculture business, the Company retains the first \$10 million of each loss arising from industrial accidents and the first \$20 million of each loss arising out of earthquakes and acts of terrorism. For all other business classes, the Company retains the first \$20 million of each loss.

Effective April 1, 2023, for the P&C Agribusiness line, the Company maintained an excess of loss per risk and catastrophe reinsurance. Per risk providing protection up to \$25 million with the Company's retention of the first \$3.5 million. The catastrophe reinsurance provides protection up to \$30 million with \$6 million retention by the Company.

Effective July 1, 2023, the Company participated in a quota share reinsurance agreement for the umbrella line of business. The Company retains 10% of the first dollar up to \$5 million on any one policy, any claim, or any one occurrence.

Effective April 1, 2023, the Company participated in a quota share reinsurance agreement for the equipment breakdown line of business. Under this agreement, the Company cedes 100% of losses up to \$100 million.

Effective October 31, 2022, the Company entered into a fronting arrangement with Hudson Insurance Company, a subsidiary of Fairfax and an affiliate of the Company, whereby the Company will write crop insurance in California and cede 100% of premiums, commissions, and losses in exchange for a 1% ceding commission under a 100% quota share agreement. In November 2023, the Company started to issue policies under this agreement, recorded in the Company's financials starting in the first quarter of 2024.

The following is a summary of the Company's principal ceded reinsurance treaties in force as of December 31, 2023, 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 Catastrophe Excess of Loss | The Cincinnati Insurance Company 10.0%
Transatlantic Reinsurance Company 7.5%
Houston Casualty Company, London Branch 5.0%
Chaucer Insurance Company DAC, Bermuda 2.0%
Allied World Assurance Company Limited * 6.0%
AXIS Reinsurance Company 1.5%
Arch Reinsurance Company 5.0%
Odyssey Reinsurance Company 5.0%
Munich Reinsurance America Inc 5.0%
Markel Bermuda Limited 1.5%
Lloyds of London 41.5%
Odyssey Reinsurance Company 10.0% | \$10 Million | \$10 million in excess of \$10 million, with an aggregate limit of \$20 million on all loss occurrences |
| 2 nd Catastrophe | | \$20 million | \$30 million in excess of \$20 |

| Type of Contract | Reinsurer's Name | | Company's Retention | Reinsurer's Maximum Limits |
|--|--|--|---|--|
| Excess of Loss | XL Re Europe SE * 4.0%
The Cincinnati Insurance Company 8.0%
Transatlantic Reinsurance Company 4.0%
Houston Casualty Company, London Branch 5.0%
Chaucer Insurance Company DAC, Bermuda * 2.0%
Allied World Assurance Company Limited * 6.0%
AXIS Reinsurance Company 1.5%
Arch Reinsurance Company 5.0%
Odyssey Reinsurance Company 5.0%
Munich Reinsurance America Inc 5.0%
Markel Bermuda Limited 1.5%
Lloyds of London 43.0%
Odyssey Reinsurance Company 10.0% | | (covered by 1 st Catastrophe Excess of Loss) | million, with an aggregate limit of \$60 million on all loss occurrences |
| 3 rd Catastrophe Excess of Loss | XL Re Europe SE * 4.0%
The Cincinnati Insurance Company 8.0%
Transatlantic Reinsurance Company 4.0%
Houston Casualty Company, London Branch 5.0%
Chaucer Insurance Company DAC, Bermuda * 2.0%
Allied World Assurance Company Limited * 6.0%
AXIS Reinsurance Company 1.5%
Arch Reinsurance Company 4.0%
Hanover RE (Bermuda) Limited * 13.5%
Odyssey Reinsurance Company 8.0%
Munich Reinsurance America Inc 5.0%
Markel Bermuda Limited 1.5%
Lloyds of London 27.5%
Odyssey Reinsurance Company 10.0% | | \$50 million (covered by 1 st and 2 nd Catastrophe Excess of Loss) | \$50 million in excess of \$50 million, with an aggregate limit of \$100 million on all loss occurrences |
| 4 th Catastrophe Excess of Loss | Hannover Re (Bermuda) Limited * 13.5%
Houston Casualty Company, London Branch 5.0%
Lloyds London 52.5%
Markel Global Reinsurance Company * 14.0%
XL Re Europe SE * 5.0%
Odyssey Reinsurance Company 10.0% | | \$100 million (covered by 1 st 2 nd and 3 rd Catastrophe Excess of Loss) | \$50 million in excess of \$100 million with an aggregate limit of \$100 million on all loss occurrences |

(*) Unauthorized reinsurers

Property and Casualty – Agriculture Business

| Type of Contract | Reinsurer's Name | | Company's Retention | Reinsurer's Maximum Limits |
|---|---|--|---------------------|---|
| 1 st Per Risk Excess of Loss | Munich Reinsurance America Inc 10.0%
Lloyd's Underwriter Syndicate No. 2001 AML 10.0%
Houston Casualty Company 1.5%
Renaissance Reinsurance U.S. Inc 3.5%
Allied World Insurance Company 5.0%
Arch Reinsurance Company 10.0%
R+V Versicherung AG * 20.0%
Odyssey Reinsurance Company 5.0%
Hannover Ruck Se * 25.0%
Odyssey Reinsurance Company 10.0% | | \$3.5 million | \$6.5 million in excess of \$3.5 million

Limit of Reinsurers' Liability \$6.5 million each loss, each risk \$13 million, each loss occurrence, \$13 million contract limit |

| Type of Contract | Reinsurer's Name | Company's Retention | Reinsurer's Maximum Limits |
|--|--|--|--|
| 2 nd Per Risk Excess of Loss | Munich Reinsurance America Inc 10.0%
Lloyd's Underwriter Syndicate No. 2001 AML 6.5%
Houston Casualty Company 2.5%
Renaissance Reinsurance U.S. Inc 1.0%
Allied World Insurance Company 5.0%
Arch Reinsurance Company 10.0%
R+V Versicherung AG * 20.0%
Odyssey Reinsurance Company 5.0%
Odyssey Reinsurance Company 10.0%
Hannover Ruck Se * 30.0% | \$10 million
(covered by 1 st Per Risk Excess of Loss) | \$15 million in excess of \$10 million

Limit of Reinsurers' Liability \$15 million each loss, each risk, \$15 million each loss occurrence, \$30 million contract limit |
| 1 st Catastrophe Layer | Allied World Insurance Co 8.0%
Chaucer Insurance Company DAC, Bermuda * 6.5%
Pillar * 5.5%
Hannover Ruck Se * 30.0%
R+V Versicherung* 20.0%
Lloyds London 20.0%
Odyssey Reinsurance Company 10.0% | \$6 million | \$14 million in excess \$6 million

Reinsurers' aggregate limit of Liability \$28 million for all loss occurrences |
| 2 nd Catastrophe Layer | Allied World Insurance Co 2.5%
Arch Reinsurance Company 7.5%
Chaucer Insurance Company DAC, Bermuda * 5.0%
Pillar * 5.0%
Hannover Ruck Se * 30.0%
R+V Versicherung * 20.0%
Lloyds London 20.0%
Odyssey Reinsurance Company 10.0% | \$20 million
(covered by 1 st Catastrophe Layer) | \$10 million in excess \$20 million

Reinsurers' aggregate limit of liability \$20 million for all loss occurrences |
| Quota Share Reinsurance of Umbrella Business | Renaissance Reinsurance U.S. Inc 10.0%
Chaucer Insurance Company DAC, Bermuda * 10.0%
Hannover Ruck Se * 25.0%
Axis Reinsurance Company 10.0%
Odyssey Reinsurance Company 10.0%
Partner Reinsurance Company of the U.S. 25.0% | 10% | 90% of \$5 million for any one policy, any one claim or occurrence |
| Quota Share Reinsurance of Equipment Breakdown | Factory Mutual Insurance Company 100.0% | \$0 | Limit any policies of total insured up to \$100 million |

(*) Unauthorized reinsurers

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, 2023. 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 as a result of the examination.

Statement of Financial Condition as of December 31, 2023

Underwriting and Investment Exhibit for the Year Ended December 31, 2023

Reconciliation of Surplus as Regards Policyholders from December 31, 2019
through December 31, 2023

Statement of Financial Condition
as of December 31, 2023

| <u>Assets</u> | <u>Ledger and
Nonledger Assets</u> | <u>Assets Not
Admitted</u> | <u>Net Admitted Assets</u> | <u>Notes</u> |
|--|--|--------------------------------|----------------------------|--------------|
| Bonds | \$ 974,525,179 | \$ | \$ 974,525,179 | |
| Preferred stocks | 24,453,460 | | 24,453,460 | |
| Common stocks | 397,185,581 | | 397,185,581 | |
| Mortgage loans on real estate: First liens | 218,522,686 | | 218,522,686 | |
| Real Estate: Property occupied by the company | 21,199,366 | | 21,199,366 | |
| Cash, cash equivalents, and short-term investments | 43,949,814 | | 43,949,814 | |
| Derivatives | 2,551,635 | | 2,551,635 | |
| Other invested assets | 79,844,738 | | 79,844,738 | |
| Receivables for securities | 517,096 | | 517,096 | |
| Investment income due and accrued | 11,031,307 | | 11,031,307 | |
| Uncollected premiums and agents' balances in the course of collection | 28,287,927 | 951,379 | 27,336,548 | |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 40,802,250 | 511,412 | 40,290,838 | |
| Amounts recoverable from reinsurers | 577,427 | | 577,427 | |
| Funds held by or deposited with reinsured companies | 1,375,068 | | 1,375,068 | |
| Net deferred tax asset | 77,925,791 | 8,484,247 | 69,441,544 | |
| Guaranty funds receivable or on deposit | 60,925 | | 60,925 | |
| Electronic data processing equipment and software | 1,409,803 | 1,232,635 | 177,168 | |
| Furniture and equipment | 477,079 | 477,079 | | |
| Aggregate write-ins for other than invested assets | 30,947,344 | 6,971,600 | 23,975,744 | |
| Total assets | <u>\$ 1,955,644,476</u> | <u>\$ 18,628,352</u> | <u>\$ 1,937,016,124</u> | |

Liabilities, Surplus and Other FundsNotes

| | | | |
|---|----|-------------------------|-----|
| Losses | \$ | 786,731,517 | (1) |
| Reinsurance payable on paid loss and loss adjustment expenses | | 2,262,166 | |
| Loss adjustment expenses | | 193,054,100 | (1) |
| Commissions payable, contingent commissions and other similar charges | | 11,509,903 | |
| Other expenses | | 23,905,821 | |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | | 6,230,468 | |
| Current federal and foreign income taxes | | 722,926 | |
| Unearned premiums | | 121,077,683 | |
| Advance premiums | | 3,342,930 | |
| Ceded reinsurance premiums payable | | 4,328,323 | |
| Funds held by company under reinsurance treaties | | 4,721,501 | |
| Amounts withheld or retained by company for account of others | | 1,033,485 | |
| Provision for reinsurance | | 1,547,020 | |
| Payable to parent, subsidiaries and affiliates | | 3,684,453 | |
| Derivatives | | 2,276,332 | |
| Payable for securities | | 2,491,292 | |
| Aggregate write-ins for liabilities | | <u>33,970,483</u> | |
| Total liabilities | | 1,202,890,403 | |
| Common capital stock | \$ | 4,200,000 | |
| Gross paid-in and contributed surplus | | 318,910,645 | |
| Unassigned funds (surplus) | | <u>411,015,076</u> | |
| Surplus as regards policyholders | | <u>734,125,721</u> | |
| Total liabilities, surplus, and other funds | | <u>\$ 1,937,016,124</u> | |

Underwriting and Investment Exhibit
for the Year Ended December 31, 2023

Statement of Income

Underwriting Income

| | | |
|--------------------------------------|--------------------|--------------------|
| Premium earned | | \$ 726,929,187 |
| Deductions: | | |
| Losses incurred | \$ 274,299,469 | |
| Loss adjustment expenses incurred | 115,169,530 | |
| Other underwriting expenses incurred | <u>278,423,526</u> | |
| Total underwriting deductions | | <u>667,892,525</u> |
| Net underwriting gain | | 59,036,662 |

Investment Income

| | | |
|--|--------------------|-------------|
| Net investment income earned | \$ 71,387,376 | |
| Net realized capital gain less capital gains tax of \$20,945,245 | <u>114,911,056</u> | |
| Net investment gain | | 186,298,432 |

Other Income

| | | |
|---|------------------|-----------------------|
| Net loss from agents' or premium balances charged off | \$ (237,017) | |
| Finance and service charges not included in premiums | 110,136 | |
| Aggregate write-ins for miscellaneous income | <u>1,896,240</u> | |
| Total other income | | <u>1,769,359</u> |
| Net income before dividends to policyholders, after capital gains tax,
and before all other federal and foreign income taxes | | 247,104,453 |
| Dividends to policyholders | | 18,574,766 |
| Net income after dividends to policyholders, after capital gains tax, and
before all other federal and foreign income taxes | | 228,529,687 |
| Federal and foreign income taxes incurred | | <u>23,206,534</u> |
| Net income | | <u>\$ 205,323,153</u> |

Capital and Surplus Account

| | | |
|--|---------------------|-----------------------|
| Surplus as regards policyholders, December 31, 2022 | | \$ 708,802,000 |
| Net income | \$ 205,323,153 | |
| Change in net unrealized capital gains or (losses) less capital gains tax
of (32,600,832) | (123,320,639) | |
| Change in net unrealized foreign exchange capital gain (loss) | (5,370,020) | |
| Change in net deferred income tax | 4,783,960 | |
| Change in nonadmitted assets | (10,152,285) | |
| Change in provision for reinsurance | (940,447) | |
| Dividends to stockholders | <u>(45,000,000)</u> | |
| Change in surplus as regards policyholders for the year | | <u>25,323,721</u> |
| Surplus as regards policyholders, December 31, 2023 | | <u>\$ 734,125,721</u> |

Reconciliation of Surplus as Regards Policyholders
from December 31, 2019 through December 31, 2023

| | | | |
|--|-----------------------|-----------------------|-----------------------|
| Surplus as regards policyholders,
December 31, 2019 | | | \$ 531,835,975 |
| | Gain in
Surplus | Loss in
Surplus | |
| Net income | \$ 347,745,654 | \$ 64,578,315 | |
| Change in net unrealized capital gains | 218,265,847 | 128,874,544 | |
| Change in net unrealized foreign exchange capital gain | 1,475,420 | 19,960,250 | |
| Change in net deferred income tax | 50,498,665 | 2,608,195 | |
| Change in nonadmitted assets | 1,729,681 | 10,269,918 | |
| Change in provision for reinsurance | | 1,134,299 | |
| Dividend to stockholders | | 190,000,000 | |
| Total gains and losses | <u>\$ 619,715,267</u> | <u>\$ 417,425,521</u> | |
| Net increase in surplus as regards policyholders | | | <u>202,289,746</u> |
| Surplus as regards policyholders,
December 31, 2023 | | | <u>\$ 734,125,721</u> |

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an independent review and analysis by the Casualty Actuary for the California Department of Insurance, the Company's gross and net loss and loss adjustment expense reserves as of December 31, 2023, were found to be reasonably stated and have been accepted for purposes of this examination.

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,

Amy M. Alves, CFE
Examiner-In-Charge
Risk & Regulatory Consulting, LLC
Representing the California Department
of Insurance

Ralph Oseguera, CFE
Senior Insurance Examiner, Supervisor
California Department of Insurance