REPORT OF EXAMINATION
OF THE

ZENITH INSURANCE COMPANY

AS OF
DECEMBER 31, 2012

Filed May 23, 2014

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Los Angeles, California
April 24, 2014

Honorable Dave Jones
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) at its statutory home office and the primary location of its books and records, 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 made as of December 31, 2008. This examination covers the period from January 1, 2009 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.

The examination was conducted concurrently with the examination of the Company's subsidiary, ZNAT Insurance Company.

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; accounts and records; and statutory deposits.

COMPANY HISTORY

The Company is a wholly-owned subsidiary of Zenith National Insurance Corp. (ZNIC). On May 20, 2010, Fairfax Financial Holdings Limited (Fairfax), through its affiliates, completed the acquisition of all of the outstanding shares of ZNIC common stock that it did not already own for $38 per share in cash.

Capitalization

As of December 31, 2012, the Company has 20,000 shares of $210 par value common stock authorized and outstanding.

In the second quarter of 2013, the Company's ultimate parent, Fairfax, made a capital contribution to the Company of $10 million in cash.

Dividends to Parent

During the examination period, the Company declared and paid the following cash dividends to its parent, ZNIC:

Year	Amount	
2009	$110,000,000	
2010	297,900,000	**(*)**
2011	50,000,000	
2012	100,000,000	**(*)**
Total	$557,900,000	

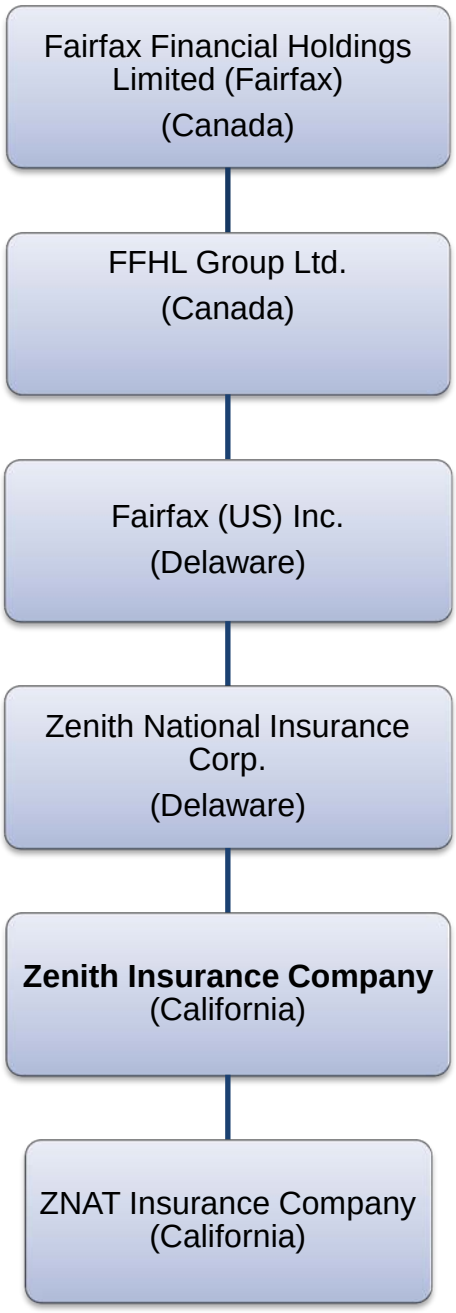
(*) Includes extraordinary dividends of $282.9 million in 2010 and $100 million in 2012 which were approved by the California Department of Insurance.

In 2009 and 2010, the Company received $4.9 million and $1.4 million, respectively, as paid-in surplus in connection with a restricted stock plan approved by ZNIC stockholders. These transactions were recorded in accordance with Statement of Statutory Accounting Principle No. 12.

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 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 (all ownership is 100%):


Fairfax Financial Holdings Limited (Fairfax)
(Canada)
FFHL Group Ltd.
(Canada)
Fairfax (US) Inc.
(Delaware)
Zenith National Insurance Corp.
(Delaware)
Zenith Insurance Company
(California)
ZNAT Insurance Company
(California)

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, 2012 follows:

Directors

Name and Location	Principal Business Affiliation
Michael E. Jansen Agoura Hills, California	Executive Vice President and General Counsel Zenith Insurance Company
Jack D. Miller Moraga, California	Chief Executive Officer and President Zenith Insurance Company
Kari L. Van Gundy Chatsworth, California	Executive Vice President, Chief Financial Officer and Treasurer Zenith Insurance Company

Principal Officers

Name	Title
Jack D. Miller	Chief Executive Officer and President
Kari L. Van Gundy	Executive Vice President, Chief Financial Officer, and Treasurer
Michael E. Jansen	Executive Vice President and General Counsel
Jason T. Clarke	Executive Vice President and Chief Actuary
Davidson M. Pattiz	Executive Vice President
Hyman J. Lee Jr.	Senior Vice President, Assistant General Counsel, and Secretary

Audit Committee

Fairfax, as the ultimate controlling entity of the Company, has designated the Fairfax Audit Committee (comprised of certain independent members of the Fairfax board of directors) as the audit committee of the Company for purposes of complying with the audit committee requirements of California Insurance Code Section 900.2 and Title 10,

Chapter 5, Subchapter 3, Article 3.3, Section 2309.3 of the California Code of Regulations. The following are the members of the Fairfax Audit Committee: Alan D. Horn, Robert J. Gunn, Timothy R. Price, and Anthony F. Griffiths.

Intercompany Agreements

Administrative Services and Cost Sharing Agreement: ZNIC and its insurance subsidiaries are parties to an Administrative Services and Cost Sharing Agreement dated January 1, 2008 (amended October 9, 2008, December 28, 2009, and September 30, 2011). 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 2009, 2010, 2011, and 2012, the Company received from ZNIC and ZNAT Insurance Company $28.1 million, $28.5 million, $25.0 million, and $31.3 million, respectively. The current agreement, which includes all of its amendments, was approved by the California Department of Insurance (CDI) on August 30, 2011.

Inter-Company Tax Allocation Agreement: The Company was a party to an Amended and Restated Tax Sharing Agreement effective December 19, 2006 until it was replaced by the current Inter-Company Tax Allocation Agreement, effective May 21, 2010. The current 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 2009, 2010, 2011, and 2012, the Company incurred federal and foreign income taxes of $(2.6) million, $(29.0) million, $(27.8) million, and $(7.5) million, respectively. The current agreement was approved by the CDI on June 14, 2010.

Investment Management Agreement: The investment portfolio of the Company is currently 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. During the years 2010, 2011, and 2012, the Company paid HWIC $1.0 million, $4.6 million, and $4.5 million, respectively, in fees under the terms of the agreement. This agreement was approved by the CDI on June 14, 2010.

Claims Administration Agreement: The Company entered into a Claims Administration Agreement, effective March 1, 2013, with TIG Insurance Company, Fairmont Insurance Company, Fairmont Specialty Insurance Company, and Fairmont Premier Insurance Company (RiverStone). All of the companies that are party to this agreement are indirect wholly-owned subsidiaries of Fairfax. Under the terms of the agreement, the Company administers primarily the RiverStone's workers' compensation claims. Since the inception of the agreement through September 30, 2013, the Company received $1.7 million in service fees under the terms of the agreement. In addition, the Company was reimbursed $1.9 million in costs for implementation of the agreement. The agreement was approved by the CDI on February 27, 2013.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed to transact multiple lines of property and casualty insurance in the District of Columbia and the following 48 states:

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

During 2010, the Company started a non-workers' compensation property-casualty business specializing in California agriculture. The Company filed and received approval from the California Department of Insurance for the products offered which consist of commercial and farm automobile, property, and liability coverages. The Company began writing business in 2011. Net premiums written for 2011 and 2012 were $4.5 million and $16.7 million, respectively.

In 2012, for all lines of business, the Company wrote $533 million of direct premiums. Of these direct premiums, $305 million (57%) were written in California, $119 million (22%) were written in Florida, $22 million (4%) were written in Pennsylvania, and $87 million (17%) were written in the remaining states and the District of Columbia. The Company wrote $513 million or 96% of its direct premiums in the workers' compensation line of business with the remaining business in other property and casualty lines from its agriculture operations.

The Company's business is written through approximately 1,500 licensed independent insurance agents. The Company and its subsidiary, ZNAT Insurance Company, maintain California branch offices in Los Angeles, San Diego, Pleasanton, Sacramento, Roseville, Fresno, and Orange. Additionally, the Company maintains branch offices in Austin, Texas; East Norriton, Pennsylvania; Springfield and Itasca, Illinois; Sarasota, Orlando and Hollywood, Florida; Charlotte, North Carolina, and Birmingham, Alabama. Branch office operations include underwriting and claims processing functions.

LOSS EXPERIENCE

The following schedule reflects the Company's net underwriting and net investment results along with the net income and losses as reported by the Company in its financial statements for the years under examination and through December 31, 2013:

Year	Net Premiums Earned	Net Underwriting Gains/(Losses)	Net Investment Gains/(Losses)	Net Income/(Losses)
2009	$ 453,819,183	$ (27,569,087)	$ 100,764,335	$ 44,455,338
2010	419,602,522	(122,016,099)	124,828,627	20,807,798
2011	485,916,787	(124,038,464)	98,000,889	(4,043,308)
2012	585,075,821	(86,366,133)	(40,560,311)	(125,376,484)
Sub-totals	$ 1,944,414,313	$ (359,989,783)	$ 283,033,540	$ (64,156,656)
2013	660,337,019	23,116,863	(34,747,140)	(18,072,824)
Totals	$ 2,604,751,332	$ (336,872,920)	$ 248,286,400	$ (82,229,480)

As noted, the Company reported net underwriting losses in all years under examination. In 2013, the Company reported a net underwriting gain of $23.1 million. In total, the Company reported $336.9 million of net underwriting losses for the period of 2009 through December 31, 2013. For that same period, net investment gains and net losses totaled $248.3 million and $82.2 million, respectively.

Underwriting Results

Net premiums earned decreased from 2009 to 2010 due to a highly competitive environment, which resulted in fewer policies in force. Insured payroll in force also reflected the impact of increased unemployment and declining payroll levels of the Company's policyholders due to the economic recession. Commencing in 2011, net premiums earned increased each year as prices increased in both California and Florida and the Company began to write new business.

Although loss and loss adjustment expense ratios were generally favorable during the examination period, underwriting losses were primarily attributable to high general expense (other underwriting expenses) ratios. The Company's strategy emphasizes pricing and underwriting discipline to maintain profitability rather than focusing on revenue or market share and maintaining its policyholder service infrastructure even when premium revenues decrease.

Investment Results

The Company's investment results for the period covered by this examination and through December 31, 2013 were as follows:

Year	Net Investment Income Earned	Net Realized Capital Gains (Losses)	Net Investment Gains (Losses)	Net Unrealized Capital Gains (Losses) After Tax
2009	$82,020,847	$ 18,743,488	$ 100,764,335	$ 32,344,160
2010	$60,352,436	$ 64,476,191	$ 124,828,627	$ (1,081,735)
2011	$48,654,501	$ 49,346,388	$ 98,000,889	$(31,726,158)
2012	$26,225,553	$ (66,785,864)	$ (40,560,311)	$ 36,250,769
2013	$23,754,839	$ (58,501,979)	$ (34,747,140)	$ 30,730,228

The Company entered into an investment management agreement in May, 2010 with its affiliate, Hamblin Watsa Investment Counsel (HWIC). Prior to engaging HWIC, the Company's own investment department managed its investment portfolio and, for the most part, did not rely on external portfolio managers. Historically, the Company's net cash flow from its operations and capital were invested primarily in fixed maturity securities.

Since May 2010, the Company's investments have reflected the investment philosophy of HWIC as agreed to by the Company. HWIC follows a strategy based on the philosophy of long-term value investing and the Company's current portfolio focuses on long positions relating to U.S. Government securities, municipal bonds, cash, equities, and limited partnerships. The Company's current strategy also includes the use of derivatives to hedge against its exposure to investment risks.

The significant decrease in investment income earned in each of the years covered by this examination was primarily the result of continually lower market yields, the reduction of invested assets caused by dividends paid to Zenith National Insurance Corp. and a

significant balance of invested assets generating minimal amounts of investment income. In addition, under the Company's total return swaps derivative transactions (short positions in the Russell 2000 Index), the Company was required to pay the return on the index, including dividends declared on the underlying stocks. In total, for 2011 through 2013, the Company incurred $18.9 million (which was recorded as a reduction to investment income) of dividend and interest expense relating to its investments in total return swaps.

The $125.3 million of net realized capital losses reported in 2012 and 2013 were primarily the result of other than temporary impairments and realized losses on cash settlements/terminations of derivatives. These losses were partially offset by net unrealized capital gains of $67.0 million, primarily related to unaffiliated common stock investments.

While the Company has recorded substantial net investment gains attributable to much of its investment portfolio during the examination period, recent short-term results from investments are having a significant negative impact on the current financial statements of the Company, primarily due to the results of its equity investments and its hedging activities.

The Company's investment manager, HWIC, continues to believe that equity prices generally and significantly exceed their currently sustainable values and is willing to endure the cost of hedging in order to protect the Company from capital losses.

REINSURANCE

Intercompany Pooling Agreement

The Company is party to an Amended and Restated Reinsurance and Pooling Agreement with its insurance subsidiary, ZNAT 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:

Pool Member	Percentage
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

In September 2005, the Company exited the assumed reinsurance business and ceased writing and renewing assumed reinsurance contracts. All contracts fully expired at the end of 2006.

As of year-end 2012, the Company's assumed business consisted of the intercompany pooling agreement, certain voluntary and mandatory pools, and the runoff of the expired assumed reinsurance business.

The following schedule reflects assumed premiums and known case losses and loss adjustment expense reserves reported by the Company as of December 31, 2012 (000's omitted):

Description	Assumed Premiums	Known Case Losses and LAE Reserves
Intercompany Pooling – ZNAT Insurance Company	$ 84,716	$ 96,195
Voluntary and Mandatory Pools	3,891	8,187
Runoff of Expired Assumed Business	31	8,920
Totals - Assumed	$ 88,638	$ 113,302

Commutation of Assumed Reinsurance

In December 2012, the Company commuted four assumed reinsurance agreements and recorded net favorable loss reserve development of $1.4 million.

Ceded

The following is a summary of the Company's principal ceded reinsurance treaties in force as of December 31, 2012 covering its workers' compensation and property and casualty (agriculture) business:

Workers' Compensation Business

Type of Contract	Reinsurers' Name	Company's Retention	Reinsurer's Maximum Limits
Excess of Loss – Working Layer	Hannover Rueckversicherungs-AG (20%) - Authorized Odyssey America Reinsurance Corporation (10%) - Authorized Partner Reinsurance Company of the U.S. (20%) - Authorized Lloyd's Underwriter Syndicate No. 2987 (20%) - Authorized Aspen Insurance UK Limited (10%) - Authorized Swiss Reinsurance America Corporation (20%) - Authorized	$5 Million	$5 Million XS of $5 Million with a $15 Million Annual Maximum Recovery **(1)**
1st Excess of Loss	Self-Retained	$10 Million	$10 Million XS of $10 Million
2nd Excess of Loss	AXIS Specialty Ltd. (7.5%) - Unauthorized Platinum Underwriters Bermuda Ltd. (6.35%) - Unauthorized Hannover Rueckversicherungs-AG (15.0%) - Authorized ACE Property & Casualty Insurance Co. (2.0%) - Authorized Arch Reinsurance Company (7.0%) - Authorized Munich Reinsurance America Inc. (4.5%) - Authorized Odyssey America Reinsurance Corporation (4.5%) - Authorized Partner Reinsurance Company of the U.S. (5.0%) - Authorized Swiss Reinsurance America Corporation (12.5%) - Authorized Transatlantic Reinsurance Company (7.0%) - Authorized Aspen Insurance UK Limited (10.0%) - Authorized Lloyds of London (18.65%) – Authorized	$-0-	$20 Million XS of $20 Million **(2)**
3rd Excess of Loss	Ace Tempest Reinsurance Company Ltd. (7.5%) - Unauthorized Allied World Assurance Company Ltd. (7.0%) - Unauthorized AXIS Specialty Ltd. (6.5%) - Unauthorized Platinum Underwriters Bermuda Ltd. (6.8%) - Unauthorized Hannover Rueckversicherungs-AG (5.0%) - Authorized ACE Property & Casualty Insurance Co. (2.0%) - Authorized Arch Reinsurance Company (5.5%) - Authorized Munich Reinsurance America Inc. (6.0%) - Authorized Odyssey America Reinsurance Corporation (4.5%) - Authorized Partner Reinsurance Company of the U.S. (5.0%) - Authorized Swiss Reinsurance America Corporation (7.5%) - Authorized Transatlantic Reinsurance Company (3.5%) - Authorized Aspen Insurance UK Limited (10.0%) - Authorized Lloyds of London (23.2%) – Authorized	$-0-	$35 Million XS of $40 Million **(2)**
4th Excess of Loss	Hannover Reinsurance Company Ltd. (20.0%) - Unauthorized Odyssey America Reinsurance Corporation (20.0%) - Authorized Swiss Reinsurance America Corporation (20.0%) - Authorized Aspen Insurance UK Limited (20.0%) - Authorized Lloyd's Underwriter Syndicate No. 2987 (20.0%) - Authorized	$-0-	$25 Million XS of $75 Million **(3)**

(1) Includes all terrorism and nuclear, biological, chemical, or radiological (NBCR) coverage; $5 million per 12 month period.
(2) Excludes NBCR coverage.
(3) Terrorism only; excludes NBCR coverage.

The Company maintains excess of loss and catastrophe (CAT) reinsurance which provides protection of up to $75 million for worker's compensation losses including CAT losses arising out of California earthquakes. It retains the first $5 million of each loss and any losses that exceed its annual aggregate limit of $15 million in the layer of $5

million excess of $5 million. It retains 100% of losses in the layer of $10 million excess of $10 million.

The Company similarly maintains excess of loss and CAT reinsurance which provides protection up to $100 million for acts of terrorism excluding nuclear, biological and chemical attacks and up to $10 million for acts of terrorism arising out of nuclear, biological or chemical attacks. The Company retains the first $5 million of each loss. It also retains any losses in the $5 million excess of $5 million layer which exceed its annual aggregate limit of $5 million. It retains 100% of losses in the layer of $10 million excess of $10 million.

Property and Casualty – Agriculture Business

The following is a summary of the principal ceded property and casualty reinsurance treaties in force as of December 31, 2012 covering the Company's property and casualty agriculture business:

Type of Contract	Reinsurers' Name	Company's Retention	Reinsurer's Maximum Limits
Property Per Risk	Hannover Rueckversicherungs-AG (33.33%) - Authorized Lloyd's Underwriter Synd. No. 2987 BRT (33.33%) - Authorized Lloyd's Underwriter Synd. No. 2001 AML (33.34%) - Authorized	$2 Million Property	$8 Million XS of $2 Million
Property Automatic Facultative	Arch Reinsurance Company - Authorized		$10 Million XS of $10 Million (PC1-9) $5 Million XS of $10 Million (PC10)
Umbrella/Excess Liability Quota Share	Gen Reinsurance Corporation - Authorized	10% of First $1 Million and 5% of Layers above $1 Million	90% of First $1 Million; 95% for Layers above $1 Million; Maximum Limit $5 Million Commercial/$10 Million Farm

As of December 31, 2012, reinsurance recoverables, for all ceded reinsurance (workers' compensation and property and casualty business) totaled $184.9 million or 42% of surplus as regards policyholders. The largest recoverables are from General

Reinsurance Corporation ($66.7 million) and Westport Insurance Corporation ($52.6 million).

In addition, Odyssey Reinsurance Company (Odyssey), an affiliate of the Company's ultimate parent company, participates in the Company's excess of loss reinsurance agreements and in a quota share reinsurance agreement for business written from January 1, 2002 through December 31, 2004. The Company ceded 10% of its workers' compensation premiums written under this quota share reinsurance agreement. Odyssey also participates in the Company's excess of loss reinsurance agreements for 2011 through 2012. As of year-end 2012, total recoverables from Odyssey were $9.9 million.

RISCORP, Inc. Acquisition

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

Retroactive Reinsurance

In connection with the above-mentioned RISCORP acquisition, the Company entered into an aggregate excess of loss reinsurance agreement with Inter-Ocean Reinsurance Company, Ltd. (Inter-Ocean) on August 1, 1998, which provided ceded reinsurance for unpaid loss and allocated loss adjustment expenses assumed from RISCORP up to $50 million in excess of $182 million. The Company paid $15.7 million for the coverage. The agreement has been accounted for as retroactive reinsurance as required under the Statement of Statutory Accounting Principles No. 62.

The amount of the expected recoveries in excess of $15.7 million paid under the agreement was recorded as special surplus. At December 31, 2012, this surplus gain was $14.6 million and is being amortized to unassigned funds using the recovery method. Through December 31, 2012, the Company has received $23.9 million from Inter-Ocean pursuant to the agreement and $0.9 million was amortized into unassigned funds for the year ended December 31, 2012. The recoverable balance at year-end 2012 of $6.3 million was recorded as "Special Surplus from Retroactive Reinsurance Account". Total collateral held was $12.8 million at year-end 2012.

Commutation of Ceded Reinsurance

In 2011, the Company entered into an agreement to commute the remaining liabilities under reinsurance agreements covering certain outstanding claims for accident years 1994 to 1998. The Company received a cash payment of $24.0 million and fully assumed the remaining liabilities for these claims. This transaction did not result in any gain or loss, and the cash received is reflected in net cash from operations in the Statement of Cash Flows.

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, 2008 through December 31, 2012

Statement of Financial Condition
as of December 31, 2012

Assets	Assets	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$ 709,891,598	$ 0	$ 709,891,598	
Preferred stocks	43,213,698		43,213,698	
Common stocks	285,817,260		285,817,260	
Mortgage loans on real estate:				
First liens	30,635,000		30,635,000	
Real estate:				
Properties occupied by the company	20,227,299		20,227,299	
Properties held for the production of income	16,138,949		16,138,949	
Cash, cash equivalents and short-term investments	340,447,109		340,447,109	
Derivatives	13,824,294		13,824,294	
Other invested assets	86,173,891	17,950,000	68,223,891	(1)
Receivables for securities	661,388		661,388	
Investment income due and accrued	9,510,293		9,510,293	
Uncollected premiums and agents' balances in course of collection	9,282,624	549,401	8,733,223	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,522,923		8,522,923	
Reinsurance:				
Amounts recoverable from reinsurers	1,595,348		1,595,348	
Funds help by or deposited with reinsured companies	129,412		129,412	
Other amounts receivable under reinsurance contracts	167,179		167,179	
Current Federal and foreign income tax recoverable and interest thereon	5,786,372		5,786,372	
Net deferred tax asset	92,834,000	35,258,000	57,576,000	
Guaranty funds receivable or on deposit	3,710,450		3,710,450	
Electronic data processing equipment and software	8,434,437	6,139,561	2,294,876	
Furniture and equipment	7,402,581	7,402,581	0	
Receivables from parent, subsidiaries and affiliates	10,727,907		10,727,907	
Aggregate write-ins for other than invested assets	14,086,012	5,586,293	8,499,719	
Total assets	$ 1,719,220,024	$ 72,885,836	$ 1,646,334,188	

Liabilities, Surplus and Other Funds

Losses		$ 881,958,484	(2)
Reinsurance payable on paid losses and loss adjustment expenses		111,006	
Loss adjustment expenses		215,091,248	(2)
Commissions payable, contingent commissions and other similar charges		6,002,370	
Other expenses		10,231,431	
Taxes, licenses and fees		14,699,313	
Unearned premiums		50,400,398	
Advance premiums		1,139,766	
Ceded reinsurance premiums payable		1,697,971	
Funds held by company under reinsurance treaties		24,302	
Amounts withheld or retained by company for account of others		2,983,078	
Provision for reinsurance		963,771	
Derivatives		9,581,585	
Payable for securities		2,452,378	
Aggregate write-ins for liabilities		5,287,739	
Total liabilities		1,202,624,840	
Aggregate write-ins for special surplus funds	$ 6,335,441		
Common capital stock	4,200,000		
Gross paid-in and contributed surplus	307,738,108		
Unassigned funds (surplus)	125,435,799		
Surplus as regards policyholders		443,709,348	
Total liabilities, surplus and other funds		$ 1,646,334,188	

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

Statement of Income

Underwriting Income (Loss)		
Premiums earned		$ 585,075,821
Deductions:		
Losses incurred	$ 337,691,922	
Loss adjustment expenses incurred	117,211,533	
Other underwriting expenses incurred	216,538,498	
Total underwriting deductions		671,441,953
Net underwriting loss		(86,366,133)
Investment Income (Loss)		
Net investment income earned	$ 26,225,553	
Net realized capital losses	(66,785,864)	
Net investment loss		(40,560,311)
Other Income (Loss)		
Net loss from agents' or premium balances charged off	$ (1,608,026)	
Finance and service charges not included in premiums	26,526	
Aggregate write-ins for miscellaneous income	9,424	
Total other loss		(1,572,077)
Net loss before dividends to policyholders and before federal income taxes		(128,498,520)
Dividends to policyholders		4,349,993
Federal income tax benefit		(7,472,029)
Net loss		$ (125,376,484)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2011		$ 620,078,852
Net loss	$ (125,376,484)	
Change in net unrealized capital gains	36,250,769	
Change in net unrealized foreign exchange capital gains/losses	(687,853)	
Change in net deferred income tax	47,269,304	
Change in nonadmitted assets	(32,937,658)	
Change in provision for reinsurance	(14,136)	
Dividends to stockholder	(100,000,000)	
Aggregate write-ins for gains and losses in surplus	(873,446)	
Change in surplus as regards policyholders for the year		(176,369,504)
Surplus as regards policyholders, December 31, 2012		$ 443,709,348

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2012

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2008 , per Examination			$ 1,015,329,561
Net losses	$	$ 64,156,661	
Change in net unrealized capital gains/losses	4,524,611		
Change in net unrealized foreign exchange capital gains/losses	31,122,128		
Change in net deferred income tax	57,951,049		
Change in nonadmitted assets		28,961,816	
Change in provision for reinsurance		14,296,556	
Change in surplus notes	210,711		
Surplus adjustments: paid-in	6,366,206		
Dividends to stockholders		557,900,000	
Aggregate write-ins for gains and losses in surplus		6,479,885	
Totals	$ 100,174,705	$ 671,794,918	
Net decrease in surplus as regards policyholders for the examination period			(571,620,213)
Surplus as regards policyholders, December 31, 2012, per Examination			$ 443,709,348

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Other Invested Assets

As of year-end 2012, the Company non-admitted $18 million of its Other Invested Assets based on its interpretation at that time of California Insurance Code (CIC) Section 1210 (the Leeway Law) and various other code sections related to its invested assets CIC Sections 1196, 1198, and 1241). In 2013, subsequent to its filing of the 2012 Annual Statement, the Company reviewed its understanding of the applicable CIC Sections and determined that all of the $18 million previously non-admitted as of year-end 2012 (and $24.5 million as of June 30, 2013) was not required.

A review of the Company's current interpretation of the applicable CIC Sections by the California Department of Insurance's (CDI) Legal Division in conjunction with this examination concluded that the Company is in compliance with CICS 1210 and the other related investment code sections.

Since the Company is currently in compliance with the applicable investment codes, no examination adjustment is deemed necessary.

(2) Losses and Loss Adjustment Expenses

The December 31, 2012 loss and loss adjustment expense reserves were evaluated by a Casualty Actuary from the CDI. Based on the analysis performed, the Company's reserves for losses and loss adjustment expenses were found to be reasonably stated and have been accepted for purposes of this examination.

(3) Vehicle Fraud Assessment

As previously noted, the Company began writing commercial and farm automobile policies in California in 2011. CICS 1872.8, 1872.81, and 1874.8, along with Title 10,

Chapter 5, Subchapter 9, Article 4, Section 2698.60 of the California Code of Regulations (CCR), authorize the CDI to collect an annual assessment fee on all vehicles covered on either personal or commercial insurance policies. All admitted insurers must file a quarterly report with the CDI stating whether or not they insure any vehicles in California.

Upon review of the methodology the Company uses in calculating the number of commercial vehicles it insures for purposes of the vehicle fraud assessment fee, it was noted that the vehicle counts reported to the CDI were overstated. While vehicles deleted or cancelled during a quarter were properly included in the vehicle count at the end of that quarter, the Company continued to include/count those cancelled or deleted vehicles in subsequent quarters. This resulted in the Company properly counting its insured vehicles in the quarter in which the vehicle was canceled or deleted, but overstating the number of insured vehicles in subsequent quarters.

The overstatement of the number of vehicles counted for purposes of the fraud assessment is not significant and did not have any financial impact on the policyholders since the annual assessment is paid at policy inception.

It is recommended that the Company accurately count insured vehicles in accordance with the applicable CIC and the CCR Sections. In response, the Company indicated that the system report used to calculate the number of insured vehicles was corrected in March 2014.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Vehicle Fraud Assessment (Page 24): It is recommended that the Company accurately count insured vehicles in accordance with the California Insurance Code and the California Code of Regulations. In response to this recommendation, the Company indicated that the system report used to calculate the number of insured vehicles was corrected in March 2014.

Previous Report of Examination

None.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

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Examiner-In-Charge
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Department of Insurance
State of California