

REPORT OF EXAMINATION  
OF THE  
GOLDEN BEAR INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2022

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

Filed on November 1, 2023

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Oakland, California  
October 30, 2023

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

**GOLDEN BEAR INSURANCE COMPANY**

(hereinafter also referred to as the Company). The Company's home office is located at 1550 West Fremont Street, Suite 200, Stockton, California 95203.

**SCOPE OF EXAMINATION**

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2018. This examination covered the period from January 1, 2019 through December 31, 2022.

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

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

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

## COMPANY HISTORY

### Capitalization

The Company is authorized to issue 1,000,000 shares of common stock with a par value of \$50 per share. As of December 31, 2022, there were 36,000 shares issued and outstanding.

In November 2021, the Company's parent, Hall Holdings, Inc. infused a \$10 million capital contribution to the Company.

As of December 31, 2021, the Company's risk-based capital (RBC) ratio was 262.5% and triggered the RBC Company Action Level per California Insurance Code Section 739.3. To address the RBC deficiency, the Company submitted to the California Department of Insurance (CDI) an action plan to address the RBC deficiency which included the following following actions :

- Effective May 31, 2022, the CDI approved Company's submission for a security permit for authorization to issue a surplus note in the amount of \$15 million

pursuant to California Insurance Code Section 839. On June 23, 2022, a \$15 million surplus note was issued and funded.

- On June 28, 2022. Hall Holdings, Inc. infused \$8 million in capital contribution to the Company.
- On December 22, 2022, Hall Holdings, Inc. infused additional \$5 million in capital contribution to the Company.

As a result of the above actions, the Company's RBC ratio increased to 445.2% at year end December 31, 2022.

#### Dividends

During the examination period, the Company paid the following ordinary cash dividends to its parent, Hall Holdings, Inc.:

<u>Year</u>	<u>Total</u>
2019	\$2,000,000
2021	\$2,000,000

#### MANAGEMENT AND CONTROL

The Company is a member of a holding company system of which Hall Holdings, Inc. (formerly known as M.J. Hall & Company, Inc.) is the ultimate controlling entity.

The following organizational chart depicts the relationship of the companies within the holding company system as of December 31, 2022. All ownership is 100% unless otherwise indicated.

Hall Holdings, Inc. <sup>(a)</sup> (formerly known as M.J. Hall & Company, Inc.) (California) (Rupert C. Hall – 42.18%; Suzanne J. Reynolds – 12.66%; Other Hall Family Members – 45.16%)

**Golden Bear Insurance Company (California)**

Delta Adjusting Company (California)

Golden Bear Management Corporation (California) (Rupert C. Hall – 100%)

Hall Holdings of Alaska, Inc. <sup>(a)</sup> (formerly known as M.J. Hall & Company of Alaska, Inc.) (Alaska) (Rupert C. Hall – 100%)

The following changes in the holding company system occurred during the examination period:

- <sup>(a)</sup> On April 1, 2022, the Company's parent, M.J. Hall & Company, Inc., and its affiliate, M.J. Hall & Company of Alaska, Inc., sold their combined book of brokerage business including the M.J. Hall name as an asset sale to Acrisure, LLC, a non-affiliated, privately held, global insurance service company. As a result, the parent company's name was changed to Hall Holdings, Inc. Also, M.J. Hall & Company of Alaska, Inc.'s name was changed to Hall Holdings of Alaska, Inc.

The seven members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2022:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Peter G. Bernadicou Stockton, California	President and Owner Golden State Irrigation Services
Ashok V. Daftary Stockton, California	Physician Sutter Gould Medical Foundation
Ronald M. Guntert Jr. Stockton, California	President Guntert Steel
Michael W. Haley Stockton, California	Vice President Bank of Stockton
Michael J.R. Hall II Stockton, California	Vice President Golden Bear Insurance Company

Name and Location

Principal Business Affiliation

Rupert C. Hall  
Stockton, California

President and Chief Executive Officer  
Golden Bear Insurance Company

Edward I. Leland  
Stockton, California

Retired

Principal Officers

Name

Title

Rupert C. Hall  
Artur A. Terner  
Stacey A. Jackson

President and Chief Executive Officer  
Chief Financial Officer and Treasurer  
General Counsel and Secretary

Management Agreements

Inter-Company Operating Expense Allocation Agreement: On October 1, 2010, the Company, Hall Holdings, Inc. (Hall Holdings, formerly known as M.J. Hall and Company, Inc.), and Delta Adjusting Company (Delta) entered into the Inter-Company Operating Allocation Expense Agreement (Agreement). Under the terms of the Agreement, Hall Holdings, Delta, and the Company agree to share in the cost of operating expenses, personnel and resources used in day to day operation at their home office, including but not limited to: personnel, data processing, and communication equipment. Performance of services and use of facilities may include accounting, tax and auditing; investments; and functional support services, such as actuarial, telecommunication and electronic data processing, legal, purchasing, payroll, and employee relations. Compensation for the services is based on actual cost without a profit margin. The Agreement was approved by the California Department of Insurance (CDI) on June 12, 2012, pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). The amounts paid by the Company were \$2,129,478, \$3,526,319, \$2,481,659, and \$2,241,496 for these services in 2019, 2020, 2021, and 2022, respectively.

Inter-Company Claim Service Agreement: On October 1, 2010, the Company and Delta entered into the Inter-Company Claim Service Agreement (Agreement). Under the terms

of the Agreement, Delta provides the Company with claim adjustment services, including reviewing claim or loss reports made by insureds; conducting investigations on each reported claim or loss; arranging independent investigations or legal services; notifying all reinsurers of potential claims or losses; participating in negotiation and settlement of all claims subject to approval by the Company; performing administrative and clerical work in connection with claims or losses; and preparing administrative reports for management. Delta agrees to provide all services at cost without a profit markup. The CDI approved the Agreement on February 14, 2012, pursuant to CIC Section 1215.5(b)(4). The Amendment No. 1 was entered on July 7, 2017 to amend the address of Delta. All other terms and conditions remain the same. The amounts paid by the Company were \$1,037,429, \$1,560,825, \$1,622,685, and \$1,999,574 for these services in 2019, 2020, 2021, and 2022, respectively.

**Tax Sharing Agreement:** On May 1, 2010, the Company, Hall Holdings, and Delta entered into the Tax Sharing Agreement (Agreement). Under the terms of the Agreement, Hall Holdings agrees to file a consolidated federal income tax return on behalf of the companies. Federal income taxes are paid or recovered on the basis of each company's federal taxable income or loss. The CDI approved the Agreement on April 12, 2011, pursuant to CIC Section 1215.5(b)(4). Taxes paid under this Agreement for 2019, 2020, 2021, and 2022 were \$2,467,419, \$3,204,133, (\$677,161), and \$648,992, respectively.

**Broker Agreement:** On April 26, 2012, the Company and Hall Holdings entered into the Broker Agreement (Agreement). Under the terms of the Agreement, the Company appoints Hall Holdings to transmit to the Company applications for insurance coverage. Hall Holdings does not have the authority to issue binders, policies, endorsements, or insurance certificates, or to otherwise bind coverage on behalf of the Company. The CDI approved the Agreement on December 12, 2012, pursuant to CIC Section 1215.5(b)(4). The amounts paid by the Company were \$1,495,015, \$2,023,541, \$2,742,747, and \$624,660 for these services in 2019, 2020, 2021, and 2022, respectively. On April 1, 2022, this Agreement was terminated in conjunction with Hall Holdings' asset sale of its brokerage business to Acrisure, LLC and replaced with a new broker agreement with Sultan Insurance Services, LLC, a Michigan limited liability company, dba M.J. Hall



& Company Insurance Brokers. Sultan Insurance Services, LLC, is a subsidiary of Acrisure, LLC.

Reinsurance Intermediary Agreement: On April 1, 2015, the Company and Hall Holdings entered into the Reinsurance Intermediary Agreement appointing Hall Holdings as a reinsurance intermediary. Under the terms of the Agreement, Hall Holdings solicits, negotiates, and procures reinsurance on behalf of the Company. In addition, Hall Holdings provides reinsurance invoicing and account rendering services to the Company. Hall Holdings' compensation is based upon commission it individually negotiates with and obtains from reinsurers on premiums paid by the Company. The CDI approved the Agreement on July 7, 2016, pursuant to CIC Section 1215(b)(4). There was no commission or related charge assessed to the Company during the examination period. This Agreement was terminated in conjunction with Hall Holdings' sale of its brokerage business to Acrisure, LLC, effective April 1, 2022, and replaced with a new reinsurance intermediary agreement with Acrisure Re US Limited.

Inter-Company Rental Arrangement: The Company provides office space to its affiliate, Delta, in its home office located at 1550 West Fremont Street, Suite 200, Stockton, California 95203. The total rent received by the Company from Delta in 2019, 2020, 2021, and 2022 were \$56,201, \$81,600, \$81,600, and \$81,600, respectively. This arrangement has not been formalized in a written agreement nor filed for prior approval by the CDI in compliance with CIC Section 1215.5(b)(4). It is recommended that the Company formalize this arrangement in a written agreement with Delta and file for prior approval with the CDI in compliance with CIC Section 1215.5(b)(4).

### Related Party Transactions

Effective December 19, 2019, Hall Holdings entered into a \$10,000,000 Line of Credit Agreement with the Bank of Stockton. The Line of Credit was renewed with a current maturity date of January 5, 2024. The interest rate on the line of credit is a variable rate based on the Wall Street Journal prime rate, which was 7.50% as of December 31, 2022.

The line of credit is guaranteed by the Company. As of December 31, 2022, there was a \$5,000,000 outstanding balance on the line of credit.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company is licensed to transact property and casualty insurance business in California and Arizona, and operates as a surplus lines insurer in all other states and the District of Columbia.

The Company is a specialty insurance writer with the principal lines of business in earthquake, other liability, commercial multiple peril, fire coverage, homeowners multiple peril, and product liability. The Company's business is produced through wholesale brokers and two independent agents and distributed by a diverse network of wholesale insurance brokerage firms.

Direct premiums written during 2022 totaled \$183.0 million which was comprised of earthquake (46.9%), other liability – occurrence (29.2%), commercial multiple peril (15.1%), fire (6.3%), homeowners multiple peril (1.6%), and product liability – claims-made (0.9%). The majority of the direct premiums were written in California (60.3%), Washington (6.4%), Utah (3.2%), Texas (3.0%), and Oregon (2.2%). The remaining 24.9% were written in other states.

The Company conducts operations from its home office in Stockton, California. It also has a branch office in San Francisco, California, which provides underwriting support.

### REINSURANCE

#### Assumed

The Company assumes a book of business under a fronting arrangement that is produced by its affiliate, Golden Bear Management Corporation (GBMC), using the Company's

underwriting guidelines. Policies on the assumed business are issued using North American Capacity Insurance Company and/or North American Specialty Insurance Company's papers that are reinsured by Swiss Reinsurance America Corporation, and the net retained limits are retro-ceded to the Company. The assumed book of business consists mainly of casualty business located outside of California. The assumed written premiums has decreased significantly from \$41.1 million in 2020 to \$25.3 million in 2022 mainly due to the Company exiting the Trampoline Park program; significantly reducing the Habitational book of business; and cessation of writing casualty business in Florida and other states that has had adverse loss results.

The following table is a summary of the assumed reinsurance agreements as of December 31, 2022:

Line of Business and Type of Contract	Ceding Company's Name	Ceding Company's Retention	Company's Limit
<b>Casualty:</b>			
Casualty Excess of Loss	Swiss Reinsurance America Corporation	First Excess of Loss: \$1 million excess of \$500,000 each occurrence  Second Excess of Loss: \$4 million excess of \$1 million each occurrence	First Excess of Loss: \$500,000 each occurrence  Second Excess of Loss: \$1 million each occurrence

Line of Business and Type of Contract	Ceding Company's Name	Ceding Company's Retention	Company's Limit
Umbrella Liability Quota Share <sup>(a)</sup>	Swiss Reinsurance America Corporation	<p>Part 1: North American Specialty &amp; North American Capacity Insurance Company do not write the underlying policies (each occurrence):</p> <p>\$1 million Layer: 50% \$2 million Layer: 75% \$3 million Layer: 83.35% \$4 million Layer: 87.35% \$5 million Layer: 90%</p> <p>Part 2: North American Specialty &amp; North American Capacity Insurance Company writes the underlying policies (each occurrence):</p> <p>\$1 million Layer: 95% \$2 million to \$5 million Layers: 100%</p>	<p>Part 1: North American Specialty &amp; North American Capacity Insurance Company do not write the underlying policies (each occurrence):</p> <p>\$1 million Layer: 50% \$2 million Layer: 25% \$3 million Layer: 16.65% \$4 million Layer: 12.65% \$5 million Layer: 10%</p> <p>Part 2: North American Specialty &amp; North American Capacity Insurance Company writes the underlying policies (each occurrence):</p> <p>\$1 million Layer: 5% \$2 million to \$5 million Layers: 0%</p>
Umbrella Liability Quota Share (Facultative Pass through)	Swiss Reinsurance America Corporation	None	100% of the retrocedent's gross assumed liability with a limit of \$5 million
Professional Liability	Swiss Reinsurance America Corporation	90% of the first \$5 million each risk and occurrence, and 90% of \$10 million annual aggregate for asbestos related losses	10% of the first \$5 million each risk and occurrence, and 10% of \$10 million annual aggregate for asbestos related losses
<b>Property:</b>			
Property First Surplus	Swiss Reinsurance America Corporation	\$4.75 million excess of \$250,000 each risk and \$30 million in aggregate	\$250,000 each risk and \$5 million in aggregate
Residential Earthquake Deductible Buyback	Swiss Reinsurance America Corporation	80% of the first \$1.25 million each risk	20% of the first \$1.25 million each risk, and 100% of policy limits in excess of \$1.25 million each risk

<sup>(a)</sup> This agreement is a fronting arrangement whereby the net effect of the business assumed and retained by the Company is the same as the business that is written directly and retained by the Company under the ceded reinsurance agreement with Swiss Reinsurance America Corporation discussed in the Ceded section below.

### Ceded

The following table is a summary of the ceded reinsurance agreements as of December 31, 2022:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
<b>Casualty:</b>			
Umbrella Liability Quota Share	<u>Authorized</u> Swiss Reinsurance America Corporation	Part 1 – For underlying policies underwritten by the Company (each risk from each loss occurrence):  \$1 million Layer: 5% \$2 million - \$5 million Layers: 0%  Part 2 – For underlying policies not underwritten by the Company (each risk from each loss occurrence):  \$1 million Layer: 50% \$2 million Layer: 25% \$3 million Layer: 16.65% \$4 million Layer: 12.5% \$5 million Layer: 10%	Part 1 – For underlying policies underwritten by the Company (each risk from each loss occurrence):  \$1 million Layer: 95% \$2 million - \$5 million Layers: 100%  Part 2 – For underlying policies not underwritten by the Company (each risk from each loss occurrence):  \$1 million Layer: 50% \$2 million Layer: 75% \$3 million Layer: 83.35% \$4 million Layer: 87.5% \$5 million Layer: 90%
Casualty excess of Loss	<u>Authorized</u> Swiss Reinsurance America Corporation	First Excess of Loss: \$500,000 any one loss occurrence  Second Excess of Loss: \$1 million any one loss occurrence	First Excess of Loss: \$500,000 excess of \$500,000 any one loss occurrence  Second Excess of Loss: \$4 million excess of \$1 million any one loss occurrence; and not to exceed \$12 million in aggregate
Professional Liability Quota Share	<u>Authorized</u> Swiss Reinsurance America Corporation	Coverage: Testing Labs and Legal Liability (Claims made policies only):  10% of \$5 million per risk	Coverage: Testing Labs and Legal Liability (Claims made policies only):  90% of \$5 million per risk  Asbestos related claims: Annual aggregate limit of \$10 million
Cannabis Directors and Officers Liability Quota Share	<u>Authorized</u> Hannover Ruck SE (45%) MS Amlin AG (38.33%)  Note: The Company retains a 17.67% part of 100% share in the interests and liabilities.	\$500,000 for loss under any one policy	\$2.5 million excess of \$500,000 for loss under any one policy

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
<b><u>Property:</u></b>			
Property Catastrophe	<u>Authorized:</u> General Reinsurance Corporation (91.25%) Allianz Global Risks US Insurance Company (3.75%)  <u>Unauthorized:</u> Various reinsurers: 5%	Layer 1: \$7.5 million each loss occurrence	Layer 1: \$22.5 million excess \$7.5 million each loss occurrence; and \$45 million in aggregate
Property Catastrophe	<u>Authorized:</u> General Reinsurance Corporation (88%) Lloyd's Syndicate Number 2791 (5%) Scor Reinsurance Company (2%)  <u>Unauthorized:</u> Various reinsurers (5%)	Layer 2: \$30 million each loss occurrence	Layer 2: \$70 million excess \$30 million each loss occurrence; and \$140 million in aggregate
Property Catastrophe	<u>Authorized:</u> General Reinsurance Corporation (30%) Various Lloyd's Underwriters (24.5%) Everest Reinsurance Company (15%) Swiss Reinsurance American Corp. (15%) Scor Reinsurance Company (2%)  <u>Unauthorized:</u> R+V Versicherung AG (4%) Various reinsurers (9.5%)	Layer 3: \$100 million each loss occurrence	Layer 3: \$100 million excess \$100 million each loss occurrence; and \$200 million in aggregate

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Catastrophe	<u>Authorized:</u> General Reinsurance Corporation (30%) Everest Reinsurance Company (14%) Various Lloyd's Underwriters (13.6%) Munich Reinsurance American Inc. (12.5%) Swiss Reinsurance American Corp. (10%) Various reinsurers (3.5%)  <u>Unauthorized:</u> R + V Versicherung AG (4%) Conduit Reinsurance Limited (4%) Various reinsurers (8.4%)	Layer 4 (California Only): \$200 million each loss occurrence	Layer 4 (California Only): \$150 million excess \$200 million each loss occurrence; and \$300 million in aggregate
Property Catastrophe	<u>Authorized:</u> Various Lloyd's Underwriters (35.05%) Munich Reinsurance American Inc. (20%) General Reinsurance Corporation (10.5%) Everest Reinsurance Company (10%) Various reinsurers (9%)  <u>Unauthorized:</u> Lancashire Insurance Company Ltd. (5%) R + V Versicherung AG (4%) Various reinsurers (6.45%)	Layer 5 (California Only): \$350 million each loss occurrence	Layer 5 (California Only): \$200 million excess \$350 million each loss occurrence; and \$400 million in aggregate
Property Quota Share	<u>Authorized</u> General Reinsurance Corporation (70%) Swiss Reinsurance America Corporation (10%) Munich Reinsurance America, Inc. (10%) Berkley Re America (3%)	7% each risk / Up to \$700,000	\$9.3 million each risk (being 93% of \$10 million); and \$300 million in aggregate

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Cannabis Multiline Quota Share	<u>Authorized</u> General Reinsurance Corporation (46.67%) Hannover Ruck Se (20%) MS Amlin AG (20%) United National Insurance Company (5.33%)	Section 1 – Commercial Property:  8% of \$15 million / Up to \$1.2 million of ultimate net liability for loss any one risk any one location	Section 1 – Commercial Property:  92% of \$15 million / Up to \$13.8 million of ultimate net liability for loss any one risk any one location; and \$45 million in aggregate per loss occurrence
Cannabis Multiline Quota Share	<u>Authorized</u> Hannover Ruck Se (20%) MS Amlin AG (20%) United National Insurance Company (10%)	Section 2 – General Liability and Section 3 – Products Liability:  50% of \$1 million / Up to \$500,000 per loss occurrence	Section 2 – General Liability and Section 3 – Products Liability:  50% of \$1 million / Up to \$500,000 per loss occurrence; and \$2 million in aggregate per loss occurrence
Equipment Breakdown and Service Line Quota Share	<u>Authorized</u> Liberty Mutual Insurance Company	\$0 any one loss, any one accident, or any one policy	Commercial Property Policies – Equipment Breakdown: \$50 million any one loss, any one accident, or any one policy  Homeowners Policies – Equipment Breakdown: \$100,000 any one loss, any one accident, or any one policy  Homeowners Policies – Service Line: \$10,000 any one loss, any one accident, or any one policy

## ACCOUNTS AND RECORDS

### Schedule Y

According to the 2022 National Association of Insurance Commissioners Annual Statement Instructions (ASI) related to Schedule Y, the Company is required to report the net amount of all transactions including all revenues or expenditures under management agreements and service contracts between the Company and the insurance holding company system members. During the review of Schedule Y, Part 2, it was noted that the Company did not disclose any amounts paid by the Company to Hall Holdings, Inc. (Hall Holdings), the parent company, under the Inter-Company Operating Expense Allocation Agreement for reporting years 2019 to 2022. It is recommended that the Company



disclose the net amounts paid by the Company to Hall Holdings under the Inter-Company Operating Expense Allocation Agreement in accordance with the 2022 ASI.

### FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2022. The accompanying comments to the amounts in the annual statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2022

Underwriting and Investment Exhibit for the Year Ended December 31, 2022

Reconciliation of Surplus as Regards Policyholders from December 31, 2018 through December 31, 2022

Statement of Financial Condition  
as of December 31, 2022

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 219,364,703	\$	\$ 219,364,703	
Common stocks	9,375,380		9,375,380	
Real Estate: Properties occupied by the company	14,035,115		14,035,115	
Cash, cash equivalents, and short-term investments	29,498,262		29,498,262	
Other invested assets	4,060,971	11,804	4,049,167	
Investment income due and accrued	1,420,168		1,420,168	
Uncollected premiums and agents' balances in the course of collection	23,406,289	1,157,009	22,249,280	
Amounts recoverable from reinsurers	10,046,256		10,046,256	
Current federal and foreign income tax recoverable and interest thereon	1,222,248		1,222,248	
Net deferred tax asset	3,739,348		3,739,348	
Electronic data processing equipment and software	1,251,922	1,100,956	150,966	
Furniture and equipment	<u>151,541</u>	<u>151,541</u>	<u>0</u>	
Total assets	<u>\$ 317,572,203</u>	<u>\$ 2,421,310</u>	<u>\$ 315,150,893</u>	
 <u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ 104,196,183	(1)
Reinsurance payable on paid loss and loss adjustment expenses			7,433,867	
Loss adjustment expenses			31,861,251	(1)
Commissions payable, contingent commissions and other similar charges			593,972	
Other expenses			2,606,245	
Taxes, licenses and fees			472,722	
Borrowed money and interest thereon			37,636	
Unearned premiums			27,907,642	
Advance premiums			27,386	
Ceded reinsurance premiums payable			33,105,605	
Payable to parent, subsidiaries and affiliates			404,188	
Aggregate write-ins for liabilities			<u>284,331</u>	
Total liabilities			208,931,028	
Common capital stock		\$ 1,800,000		
Surplus notes		15,000,000		
Gross paid in and contributed surplus		26,773,978		
Unassigned funds (surplus)		<u>62,645,887</u>		
Surplus as regards policyholders			<u>106,219,865</u>	
Total liabilities, surplus, and other funds			<u>\$ 315,150,893</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2022

Statement of Income

Underwriting Income

Premium earned		\$ 48,734,590
Deductions:		
Losses incurred	\$ 31,076,998	
Loss adjustment expenses incurred	16,166,242	
Other underwriting expenses incurred	<u>(969,692)</u>	
Total underwriting deductions		<u>46,273,548</u>
Net underwriting gain		2,461,042

Investment Income

Net investment income earned	\$ 2,720,702	
Net realized capital gains	<u>440,079</u>	
Net investment gain		3,160,781

Other Income

Net loss from agents' or premium balances charged off	\$ (23,591)	
Aggregate write-ins for miscellaneous income	<u>8,124</u>	
Total other income		<u>(15,467)</u>
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		5,606,356
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		5,606,356
Federal and foreign income taxes incurred		<u>532,009</u>
Net income		<u>\$ 5,074,347</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2021		\$ 76,859,726
Net income	\$ 5,074,347	
Change in net unrealized capital losses	(2,560,467)	
Change in net deferred income tax	(302,616)	
Change in nonadmitted assets	(851,125)	
Change in surplus notes	15,000,000	
Surplus adjustment: Paid-in	<u>13,000,000</u>	
Change in surplus as regards policyholders for the year		<u>29,360,139</u>
Surplus as regards policyholders, December 31, 2022		<u>\$ 106,219,865</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2018 through December 31, 2022

Surplus as regards policyholders, December 31, 2018			\$ 56,360,610
	Gain in Surplus	Loss in Surplus	
Net income	\$ 18,233,188	\$	
Change in net unrealized capital losses		2,324,406	
Change in net deferred income tax	1,074,822		
Change in nonadmitted assets		1,124,349	
Change in surplus notes	15,000,000		
Dividend to stockholders		4,000,000	
Surplus adjustment: Paid-in	<u>23,000,000</u>		
Total gains and losses	<u>\$ 57,308,010</u>	<u>\$ 7,448,755</u>	
Net increase in surplus as regards policyholders			<u>49,859,255</u>
Surplus as regards policyholders, December 31, 2022			<u>\$ 106,219,865</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2022 prepared by the Company's actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2022 are reasonable and have been accepted for purposes of this examination.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Management and Control – Inter-Company Rental Arrangement (Page 7): It is recommended that the Company formalize the rental arrangement in a written agreement with Delta Adjusting Company and file for prior approval with the California Department of Insurance in compliance with California Insurance Code Section 1215.5(b)(4).

Accounts and Records – Schedule Y (Page 14): It is recommended that the Company disclose the net amounts paid by the Company to Hall Holdings, Inc., the parent company, under the Inter-Company Operating Expense Allocation Agreement in accordance with the 2022 Annual Statement Instructions.

### Previous Report of Examination

Accounts and Records – Unclaimed Property (Page 13): It was recommended that the Company escheat unclaimed property to the California State Controller's Office and implement procedures to ensure future compliance with California Code of Civil Procedure Sections 1530 and 1532. The Company has complied with the recommendations.

## 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,

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