REPORT OF EXAMINATION

OF THE

TOPA INSURANCE COMPANY

AS OF
DECEMBER 31, 2012

Filed June 4, 2014

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Los Angeles, California
May 19, 2014

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

TOPA INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1800 Avenue of the Stars, Los Angeles, California 90067.

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, 2009. This examination covers the period from January 1, 2010 through December 31, 2012. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

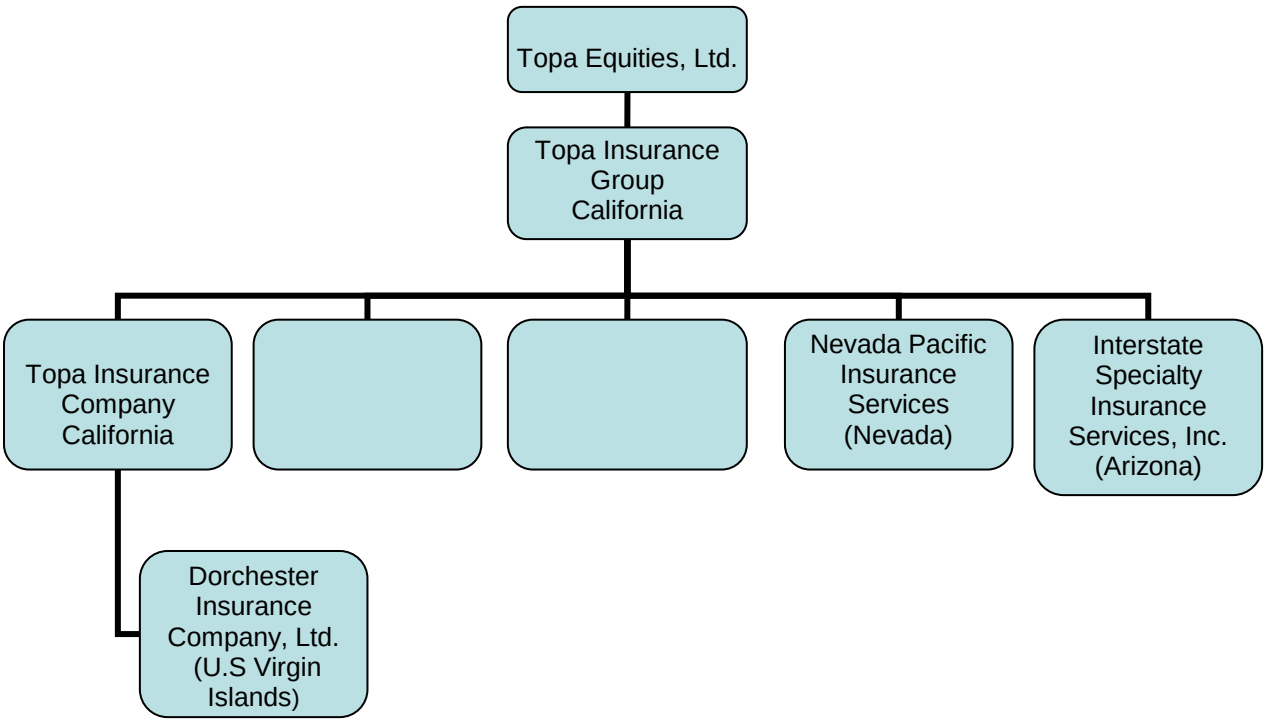
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', pensions, stock ownership and insurance plans; growth of company; loss experience; accounts and records; and statutory deposits.

COMPANY HISTORY

Ordinary cash dividends paid by the Company to its parent, Topa Insurance Group, totaled $600,000, $2,150,000, and $2,800,000 for 2010, 2011, and 2012, respectively.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Topa Insurance Group (TIG). TIG, in turn, is a wholly-owned subsidiary of Topa Equities, Ltd., a privately held insurance holding company controlled by Ms. Marion Anderson. The following is an abbreviated organizational chart depicting the Company's relationship within the holding company system as of December 31, 2012 (all ownership is 100% unless otherwise noted):



The five members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2012:

Directors

Name and Location	Principal Business Affiliation
Marion Anderson Los Angeles, California	President and Chairman of the Board Topa Equities, Ltd.
John E. Anderson Jr. Los Angeles, California	Executive Vice President Topa Equities, Ltd.

Name and Location	Principal Business Affiliation
Noshirwan Marfatia[1] St. Thomas, U.S. Virgin Islands	President and Chief Executive Officer Topa Insurance Company
Judith G. Munzig Ojai, California	Director
Brenda M. Seuthe Los Angeles, California	Chief Financial Officer Topa Equities, Ltd.

Principal Officers

Name	Title
Noshirwan Marfatia	President and Chief Executive Officer
Daniel R. Sherrin[2]	Senior Vice President and Chief Financial Officer
John E. Anderson, Jr.	Vice President and Secretary
William J. Robinson	Vice President
Patrick Sessions	Vice President
Sandy Lambeck	Assistant Secretary
Armenn Gasparian	Treasurer

1 Effective May 15, 2014, Noshirwan Marfatia retired and was replaced by John E. Donahue as Director, President, and Chief Executive Officer.

2 Effective May 19, 2014, Daniel R. Sherrin was replaced by Sunil L. Hingorani.

Management Agreement

Investment Management Agreement: Effective October 1, 2001, the Company entered into an amended Investment Management Agreement with affiliate, Kayne Anderson Rudnick Investment Management, LLC (KARIM). The amended agreement, which was approved by the California Department of Insurance (CDI) on the above referenced date, provides for a management fee of $27,500 per month paid quarterly to KARIM. During each of the three years under review, the Company paid KARIM $330,000 per year. On November 1, 2001, KARIM sold a 60% interest in the firm to Phoenix Investment Partners, Ltd., reducing the ownership interest maintained by John E. Anderson[3] to 9.6%. During 2005, the remaining interest in KARIM, including that maintained by John E. Anderson, was sold to Phoenix Investment Partners, Ltd.

Intercompany Agreements

Federal Income Tax Agreement: Since January 1, 1998, the Company has been a party to a consolidated Federal Income Tax Agreement with its ultimate parent, Topa Equities, Ltd. Under the terms of this agreement, the tax liability of the Company is computed as if it had filed a separate stand-alone tax return. As a result of incurred operational losses, the Company reported a federal income tax recoverable of $562,717, $4,081,621, and $1,961,429 for 2010, 2011, and 2012, respectively.

Brokerage Agreement: The Company entered into a Brokerage Agreement with its affiliate, Topa Insurance Services, Inc. (TISI) on February 5, 1996. Under this Areement, TISI, as a broker, is not authorized to bind insurance unless prior submission is made and written approval is obtained from the Company. Commission is calculated based on a negotiated rate on a per policy basis. The Company paid TISI commissions of $66,000, $54,514, and $51,002 for 2010, 2011, and 2012, respectively.

3 Until his death on July 29, 2011, John E. Anderson was the Company's ultimate controlling person.

Agency Agreement: The Company entered into an Agency Agreement with its affiliate, McNabb Insurance Services, Inc. (McNabb) on February 1, 2002. The Agreement was approved by the California Department of Insurance (CDI) on December 20, 2002. Under this Agreement, McNabb is authorized to bind personal and commercial lines policies within specified limits. The Company paid McNabb commissions of $3,712,000, $3,664,049, and $3,018,591 for 2010, 2011, and 2012 respectively.

Agency Agreement: Effective February 1, 2002, the Company entered into an Agency Agreement with its affiliate, Nevada Pacific Insurance Services, Inc. (Nevada Pacific). The Agreement was approved by the CDI on December 20, 2002. Under this Agreement, Nevada Pacific is authorized to bind personal and commercial lines policies within specified limits. The Company paid Nevada Pacific commissions of $1,763,000, $1,812,226, and $1,160,554 for 2010, 2011, and 2012 respectively.

Agency Agreement: The Company entered into an Agency Agreement with its affiliate, Interstate Specialty Insurance Services, Inc. (ISIS) on March 1, 2012. The Agreement was approved by the CDI on September 20, 2012. Under this Agreement, ISIS is authorized to bind personal and commercial lines policies within specified limits. The Company paid ISIS commissions of $1,319,496 for 2012.

Contingent Commission (Profit Sharing) Agreements: Effective January 1, 2003, the Company entered into Contingent Commission (Profit Sharing) Areements with MCNabb and Nevada Pacific. Both agreements were approved by the CDI on December 31, 2003. In addition, on March 1, 2012, the Company entered into a Contingent Commission Agreement with ISIS, which was approved by the CDI on September 20, 2012. The Company paid McNabb contingent commissions of $821,000, $524,767, and $0 in 2010, 2011, and 2012, respectively. There were no contingent commissions paid to Nevada Pacific and ISIS during the period covered by the examination.

Office Lease Agreements: Effective February 1, 2009, Irell & Manella, LLP (I&M), a tenant of the of the building located at 1800 Avenue of the Stars, Los Angeles, California, agreed to sublease Suite 1200 in the building to the Company. The subleased premises, which constitutes the Company's home office, was leased by I&M from Duesenberg Investment Company, which was owned at the time by John E. Anderson, the Company's ultimate controlling person. Following his death in 2011, Marion Anderson became the Company's ultimate controlling person. An amendment dated September 20, 2012, extended the term of the sublease agreement to December 30, 2015. In accordance with the terms of the executed sublease agreement, the Company paid I&M the sum of $702,011 per year for each of the years under examination.

To secure auxiliary office space at the building located at 1900 Avenue of the Stars, Los Angeles, California, the Company entered into an office lease agreement with its ultimate parent, Topa Equities, Ltd. on November 10, 2003. For the purpose of extending the expiration date to February 1, 2014, the agreement was amended on February 1, 2009. The amendment was approved by the CDI on December 1, 2008. In exchange for an early termination fee of $200,000, the lease was terminated, effective June 24, 2011.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed to write various property and casualty coverages in the following 17 states and the District of Columbia:

Arizona	Iowa	Nevada	Virginia
Arkansas	Kansas	New Mexico	Washington
California	Maryland	Oklahoma	
Colorado	Missouri	South Carolina	
Georgia	Nebraska	Utah	

Workers' compensation coverage was written only for the Company's ultimate parent, Topa Equities, Ltd. As a result of the poor loss experience in both real estate errors and

omissions and workers' compensation lines of business, the Company discontinued writing these products at the end of 2011.

During 2012, the Company wrote $74.4 million of direct premiums; of which 66.8% of the writings pertained to the combination of private passenger and commercial automobile business and the remainder consisted primarily of other liability, commercial multiple peril, and homeowners multiple peril coverages. Of the total direct premiums written, $59.8 million (80.4%) was written in California. Personal lines business is distributed through independent agents. Specialty commercial lines products are distributed through wholesale brokers.

REINSURANCE

Assumed

The Company assumes a minimal amount of commercial property reinsurance, covering risks originated in the U.S. Virgin Islands, from its wholly-owned subsidiary, Dorchester Insurance Company, Ltd.

Effective January 1, 2012, the Company entered into a 100% quota share reinsurance agreement which indemnified Republic Underwriters Insurance Company (Republic) for all new and renewal non-standard private passenger automobile liability and physical damage business written by Republic's subsidiaries as of January 1, 2013. In accordance with the terms and conditions of the agreement, the Company exercised its right to terminate the agreement at the conclusion of the initial agreement period.

Ceded

The combination of multi-line excess of loss, casualty cessions, and property automatic facultative excess of loss reinsurance coverage provides $5 million of coverage over and above an initial net loss to the Company of $500,000. In addition, excess catastrophe reinsurance affords the Company $7.5 million of coverage with the Company liable for the first $1 million of ultimate net loss arising out of each loss occurrence.

The following is a summary of the Company's ceded reinsurance in-force as of December 31, 2012:

Type of Contract	Reinsurer's Name*	Company's Retention	Reinsurer's Maximum Limits
First Multi-Line Excess of Loss	13.00% Hannover Ruck 11.00% Maiden Reins. Services 40.00% QBE Reins. Corporation 21.00% Swiss Reinsurance. America 15.00% TOA Reinsurance Company	$500,000	$500,000 each and every occurrence
Second Multi-Line Excess of Loss**	45.00% QBE Reins. Corporation 15.00% TOA Reins Company	$1,000,000	$1,000,000 each and every occurrence
Third Multi-Line Excess of Loss	12.00% Maiden Reins. Services 23.00% QBE Reins. Corp. 25.00% Swiss Reins. America 15.00% TOA Reinsurance Company 25.00% Arch Reinsurance Co.	$2,000,000	$2,000,000 each and every occurrence (casualty only)
Casualty Cessions	7.50% Hannover Ruck 12.00% Maiden Reins. Co. 40.50% QBE Reins. Corp. 25.00% Swiss Reins. America 15.00% TOA Reinsurance Co.	$1,000,000	$4,000,000 of net loss each and every policy, each and every loss occurrence
Property Automatic Facultative Excess of Loss	100.00% Lloyds Syndicate 2003	$1,000,000	$4,000,000 of net loss each risk
Excess Catastrophe	7.50% Allied World Reins. Co. 8.00% American Agriculture Ins 5.00% QBE Reinsurance Company 10.00% Mapfre Re 10.00% Hanover Re (Bermuda) 15.00% Lloyds Syndicate 0780 20.00% Lloyds Syndicate 2001 24.50 % R+V Versicherung AG	$1,000,000 $2,000,000	$7,500,000 any one loss occurrence (property located within the United States) $6,500,000 any one loss occurrence (property located within the territorial limits of the United States Virgin Islands)

*All of the named reinsurers are authorized.
**With 60% of the agreement unsubscribed, the Company maintains a 40% de facto liability exposure for all potential claims that fall within the purview of the agreement.

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, 2009 through December 31, 2012

Statement of Financial Condition
as of December 31, 2012

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 119,058,254	$	$ 119,058,254	
Common stocks	22,988,541		22,988,541	
Cash and short-term investments	14,740,417		14,740,417	
Receivable for securities	79,068		79,068	
Investment Income due and accrued	1,693,485		1,693,485	
Premiums and agents balance in course of collection	5,717,992		5,717,992	
Premiums, agents' balances and installments booked but deferred and not yet due	9,929,863		9,929,863	
Amounts recoverable from reinsurers	(1,000,503)		(1,000,503)	
Funds held by or deposited with reinsured companies	203,244		203,244	
Current federal and foreign income tax recoverable and interest thereon	1,961,429		1,961,429	
Net deferred tax asset	3,971,874	3,971,874	0	
Electronic data processing equipment and software	1,160,050	1,084,825	75,225	
Furniture and equipment, including health care delivery assets	914	914	0	
Aggregate write-ins for other than invested assets	102,131	58,605	43,526	
Total assets	$ 180,606,759	$ 5,116,218	$ 175,490,541	
Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 67,074,241	(1)
Commissions payable, contingent commissions and other similar charges			154,338	
Other expenses			1,709,012	
Taxes, licenses and fees			53,050	
Unearned premiums			27,822,846	
Ceded reinsurance premiums payable			2,652,231	
Payable for securities			1,877,776	
Aggregate write-ins for liabilities			96,675	
Total liabilities			101,440,169	
Common capital stock		$ 5,000,000		
Gross paid-in and contributed surplus		23,639,733		
Unassigned funds (surplus)		45,410,639		
Surplus as regards policyholders			74,050,372	
Total liabilities, surplus and other funds			$ 175,490,541	

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

Statement of Income

Underwriting Income		
Premiums earned		$ 64,353,754
Deductions:		
Losses and loss expenses incurred	$ 46,014,960	
Other underwriting expenses incurred	26,140,247	
Total underwriting deductions		72,155,207
Net underwriting loss		(7,801,453)
Investment Income		
Net investment income earned	$ 5,484,337	
Net realized capital gains	732,640	
Net investment gain		6,216,977
Other Income		
Net loss from agents' or premium balances charged off	$ (6,056)	
Total other loss		(6,056)
Net income after capital gains tax and before all other federal and foreign income taxes		(1,590,532)
Federal and foreign income taxes incurred		(2,146,563)
Net income		$ 556,031

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2011		$ 73,728,128
Net income	$ 556,031	
Change in net unrealized capital gains	1,787,876	
Change in deferred income tax	(658,548)	
Change in nonadmitted assets	1,436,885	
Dividends to stockholders	(2,800,000)	
Change in surplus as regards policyholders for the year		322,244
Surplus as regards policyholders, December 31, 2012		$ 74,050,372

Reconciliation of Surplus as Regards Policyholders
from December 31, 2009 through December 31, 2012

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2009 per Examination			$ 71,987,871
Net income	$ 2,197,233	$	
Net unrealized capital gains	7,431,224		
Change in net deferred income tax		3,066,062	
Change in nonadmitted assets	1,050,106		
Dividends to stockholders		5,550,000	
Total gains and losses	$ 10,678,563	$ 8,616,062	
Net increase in surplus as regards policyholders			2,062,501
Surplus as regards policyholders, December 31, 2012, per Examination			$ 74,050,372

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based upon a review conducted by a Casualty Actuary from the California Department of Insurance , the Company's reserves for loss and loss adjustment expenses as of December 31, 2012 were found to be reasonably stated and accepted for the purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

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/_____
David Fischman, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California