REPORT OF EXAMINATION

OF THE

CIVIC PROPERTY AND CASUALTY COMPANY

AS OF

DECEMBER 31, 2013

Filed June 26, 2015

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Los Angeles, California
May 22, 2015

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CIVIC PROPERTY AND CASUALTY COMPANY

(hereinafter also referred to as the Company) at its statutory home office and main administrative office located at 4680 Wilshire Boulevard, Los Angeles, California 90010.

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, 2013. 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, 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.

This examination was a coordinated examination, in which California was the lead state with participation from examiners from the states of Illinois and Washington, and was conducted concurrently with the examinations of the following insurance companies:

Group/Company	NAIC CoCode	Domiciled State
FARMERS INSURANCE GROUP		
Farmers Insurance Company of Arizona	21598	AZ
Farmers Insurance Exchange	21652	CA
Truck Insurance Exchange	21709	CA
Fire Insurance Exchange	21660	CA
Civic Property and Casualty Company	10315	CA
Neighborhood Spirit Property and Casualty Company	10317	CA
Exact Property and Casualty Company	10318	CA
Mid-Century Insurance Company	21687	CA
Farmers Insurance Company of Idaho	21601	ID
Farmers New Century Insurance Company	10806	IL
Illinois Farmers Insurance Company	21679	IL
Farmers Insurance Company Inc.	21628	KS
Farmers Insurance of Columbus, Inc.	36889	OH
Farmers Insurance Company of Oregon	21636	OR
Texas Farmers Insurance Company	21695	TX
Farmers Texas County Mutual Insurance Company	24392	TX
Mid Century Insurance Company of Texas	28673	TX
Farmers Insurance Company of Washington	21644	WA

Group/Company	NAIC CoCode	Domiciled State
COAST NATIONAL/BRISTOL WEST GROUP		
Coast National Insurance Company	25089	CA
Security National Insurance Company	33120	FL
Bristol West Preferred Insurance Company	12774	MI
Bristol West Casualty Insurance Company	11034	OH
Bristol West Insurance Company	19658	OH

Group/Company	NAIC CoCode	Domiciled State
FOREMOST GROUP		
Foremost Insurance Company Grand Rapids, Michigan	11185	MI
Foremost Property and Casualty Insurance Company	11800	MI
Foremost Signature Insurance Company	41513	MI
Farmers Specialty Insurance Company	43699	MI
Foremost County Mutual Insurance Company	29254	TX
Foremost Lloyds of Texas	41688	TX

Group/Company	NAIC CoCode	Domiciled State
21ST CENTURY INSURANCE GROUP		
21st Century Casualty Company	36404	CA
21st Century Insurance Company	12963	CA
21st Century Superior Insurance Company	43761	CA
21st Century Pacific Insurance Company	23795	CO
21st Century Assurance Company	44245	DE
American Pacific Insurance Company, Inc.	10805	HI
Farmers Insurance Hawaii, Inc.	28487	HI
21st Century Advantage Insurance Company	25232	MN
21st Century Auto Insurance Company of New Jersey	10184	NJ
21st Century Pinnacle Insurance Company	10710	NJ
21st Century National Insurance Company	36587	NY
21st Century North America Insurance Company	32220	NY
21st Century Centennial Insurance Company	34789	PA
21st Century Indemnity Insurance Company	43974	PA
21st Century Preferred Insurance Company	22225	PA
21st Century Premier Insurance Company	20796	PA
21st Century Security Insurance Company	23833	PA
21st Century Insurance Company of the Southwest	10245	TX

Group/Company	NAIC CoCode	Domiciled State
ZURICH GROUP		
Farmers Reinsurance Company	10873	CA

With the exception of Farmers Reinsurance Company, which is part of the Zurich Group, all the above companies are part of the Farmers Group of companies.

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 the company; and statutory deposits.

COMPANY HISTORY

The Company was incorporated under the laws of California on February 17, 1995. It received its Certificate of Authority from the California Department of Insurance on June 30, 1995 and commenced business on September 1, 1995.

Capitalization

Paid-up capital of $5 million consists of 100,000 shares of $50 par value common stock issued and outstanding. The Company has 5,000,000 shares authorized.

MANAGEMENT AND CONTROL

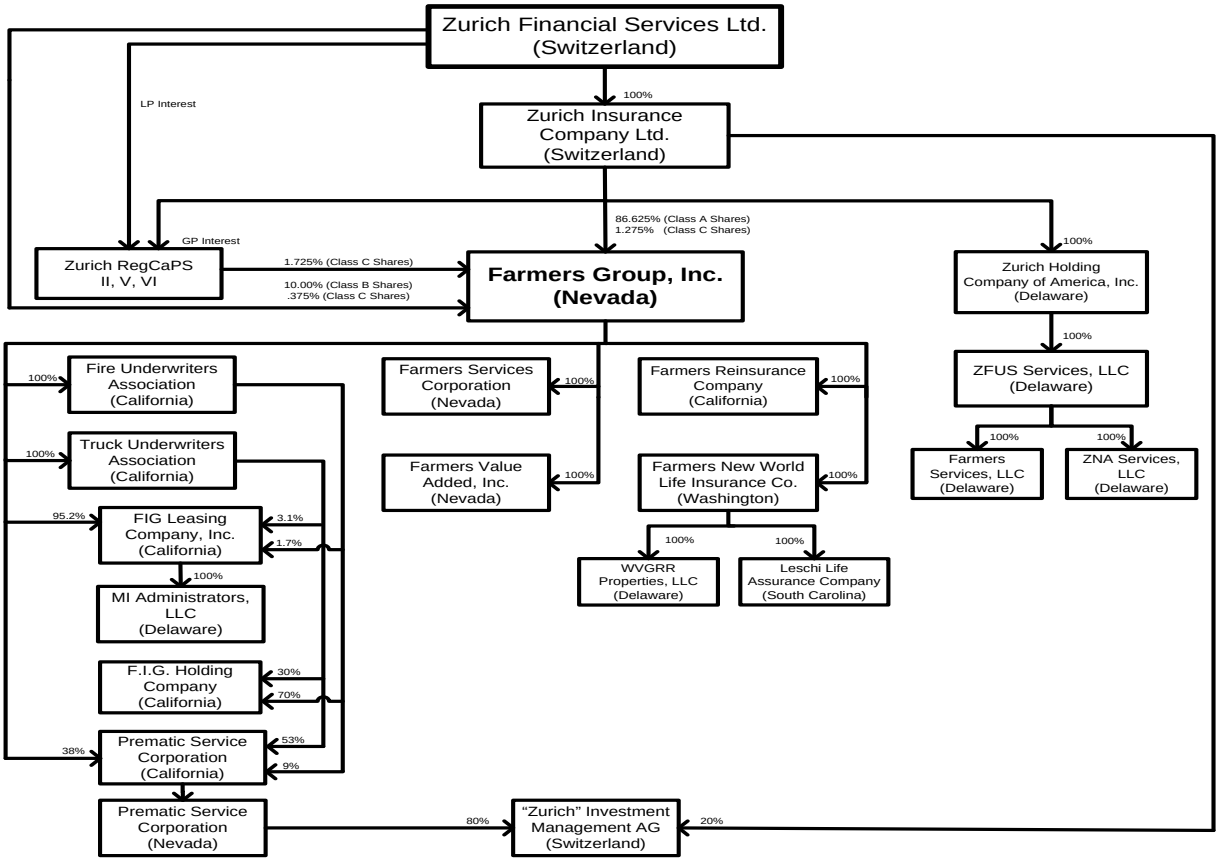
The Company is a subsidiary of Fire Insurance Exchange (80%) and Truck Insurance Exchange (20%). Through its 80% ownership interest, Fire Insurance Exchange is the ultimate controlling person of the Company.

In 2008, the intermediate-level holding structure was re-organized. Farmers Group, Inc. (FGI), dba Farmers Underwriters Association, became 87.9% owned by Zurich Insurance Company Ltd. (ZIC), 10.375% by Zurich Group Holdings (ZGH), and 1.725% by three Partnerships (Zurich RegCaPs II, V, VI) each having ZIC as the General Partner and ZGH as the Limited Partner. FGI is a U.S. subsidiary of Zurich Financial Services

(ZFS), a Swiss holding company. In 2009, another restructuring occurred, which resulted in FGI becoming directly owned 87.9% by ZIC, 10.375% by ZFS, and 1.725% by the three Partnerships (Zurich RegCaPs II, V, VI).

With the approval of the California Department of Insurance (CDI) in December 2013, a unique National Association of Insurance Commissioners (NAIC) Group Code has been assigned to the Farmers Group of companies (previously part of the Zurich NAIC Group Code 0212 and now included in the Farmers Group Code 0069). As such, ZIC is no longer named as the ultimate controlling party. However, disclosure continues to be provided in the Holding Company Annual Registration Statements regarding the relationship with ZIC and transactions involving entities with the ZIC NAIC Group Code 0212.

The following abridged organizational charts show the relationships of FGI to its ultimate parent ZFS, and of the Farmers Exchanges (Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange) to their subsidiaries and affiliates as of December 31, 2013:


Zurich Financial Services Ltd. (Switzerland)
100%
Zurich Insurance Company Ltd. (Switzerland)
LP Interest
GP Interest
Zurich RegCaPS II, V, VI
1.725% (Class C Shares)
10.00% (Class B Shares)
.375% (Class C Shares)
86.625% (Class A Shares)
1.275% (Class C Shares)
Farmers Group, Inc. (Nevada)
100%
Zurich Holding Company of America, Inc. (Delaware)
100%
ZFUS Services, LLC (Delaware)
100%
Farmers Services, LLC (Delaware)
100%
ZNA Services, LLC (Delaware)
100%
Fire Underwriters Association (California)
100%
Truck Underwriters Association (California)
95.2%
FIG Leasing Company, Inc. (California)
3.1%
1.7%
100%
MI Administrators, LLC (Delaware)
F.I.G. Holding Company (California)
30%
70%
38%
Prematic Service Corporation (California)
53%
9%
Prematic Service Corporation (Nevada)
80%
"Zurich" Investment Management AG (Switzerland)
20%
Farmers Services Corporation (Nevada)
100%
Farmers Value Added, Inc. (Nevada)
100%
Farmers Reinsurance Company (California)
100%
Farmers New World Life Insurance Co. (Washington)
100%
100%
WVGRR Properties, LLC (Delaware)
100%
Leschi Life Assurance Company (South Carolina)

FARMERS EXCHANGES ORGANIZATION

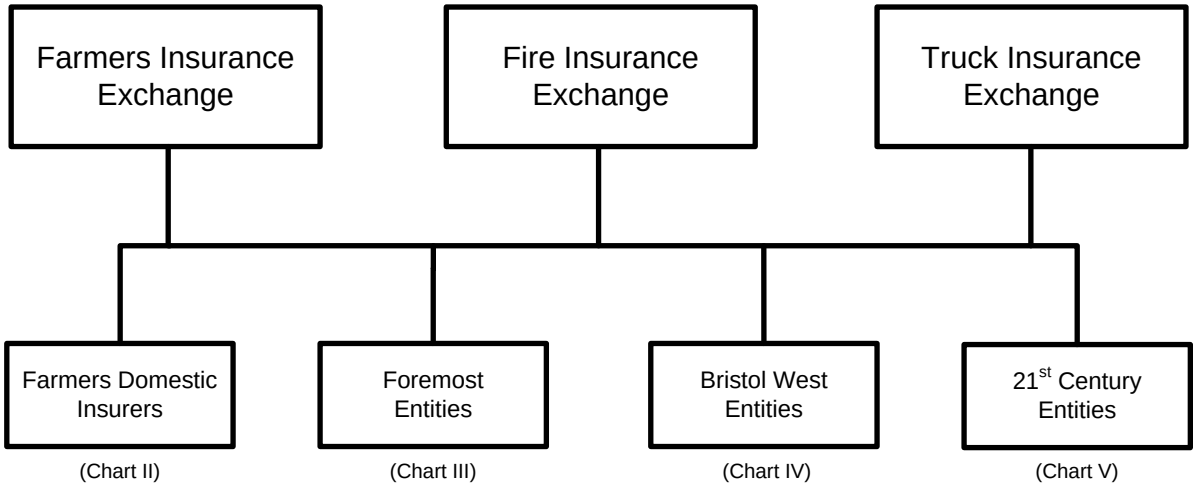


CHART II: EXCHANGES/FARMERS ENTITIES ORGANIZATION

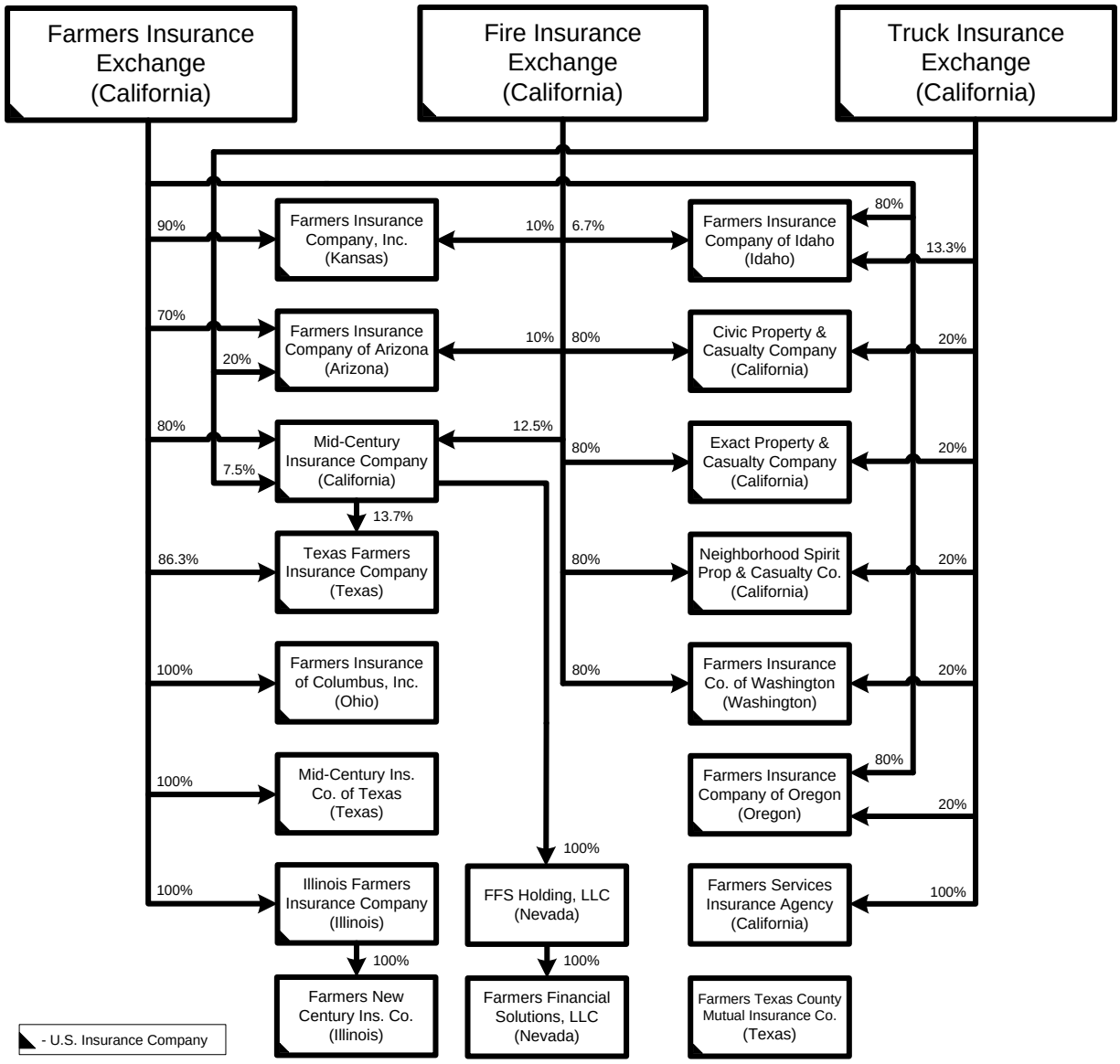


CHART III: EXCHANGES/FOREMOST ORGANIZATION

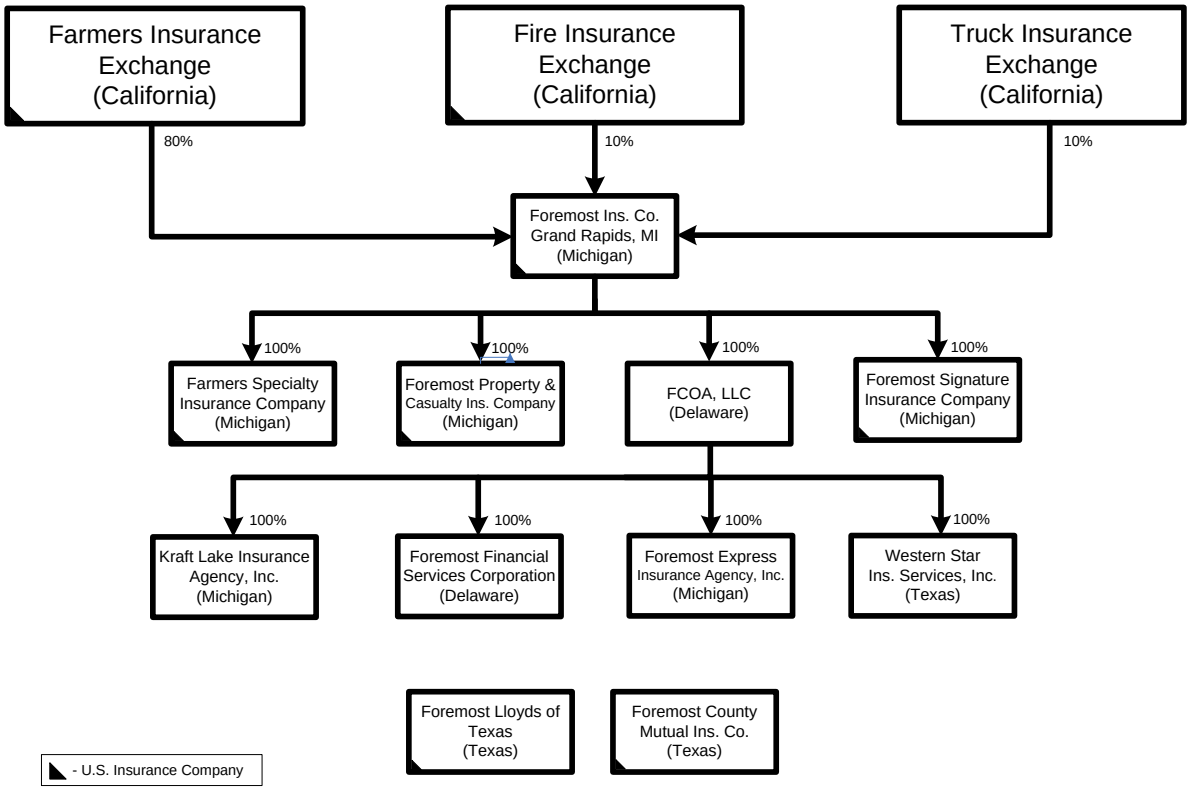


CHART IV: EXCHANGES/BRISTOL WEST ORGANIZATION

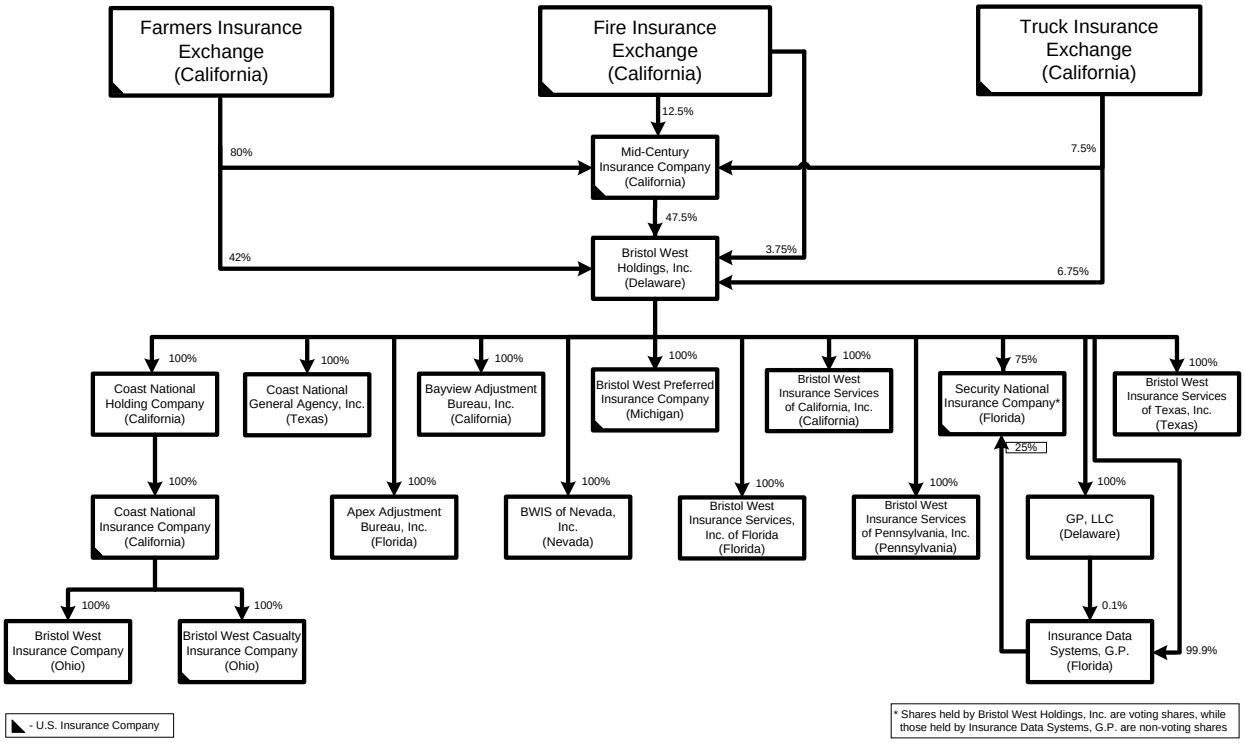
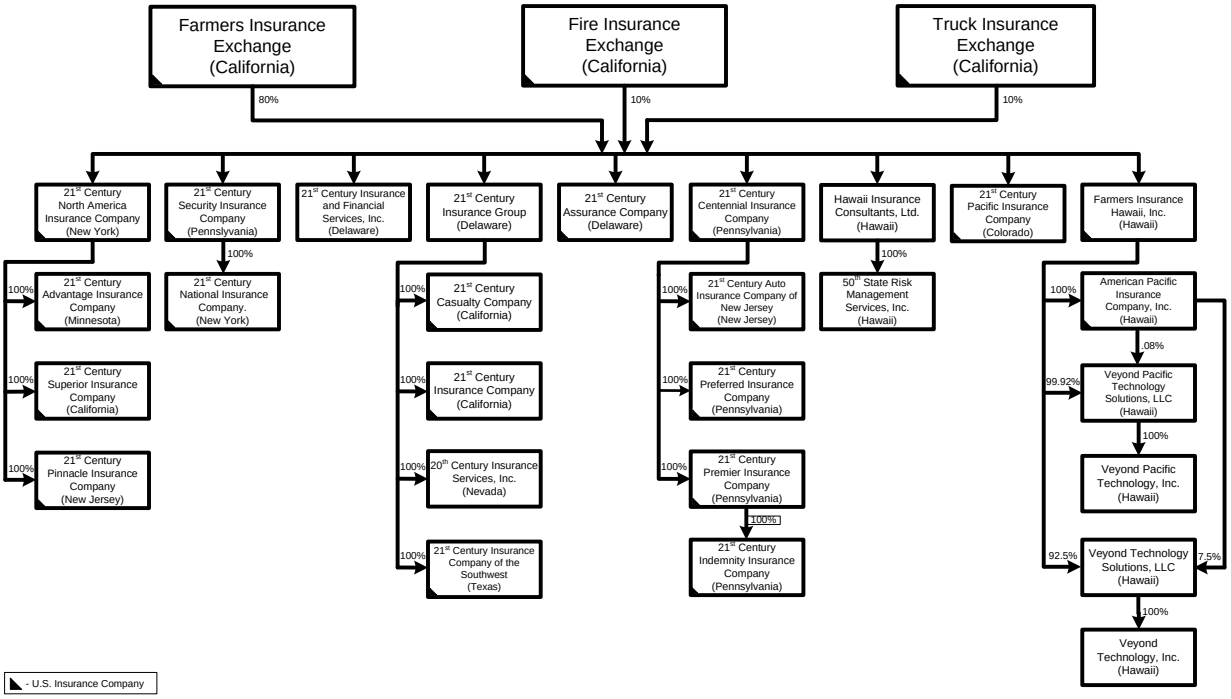


CHART V: EXCHANGES/21st CENTURY ORGANIZATION



Management of the Company is vested in a seven-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2013 follows:

Board of Directors

Name and Location	Principal Business Affiliation
Kenneth W. Bentley Los Angeles, California	Vice President of Public Relations Nestle
Peter D. Kaplan (a) Los Angeles, California	Retired
Dale A. Marlin (b) Naples, Florida	Retired
Ronald G. Myhan Laguna Beach, California	Chief Financial Officer Farmers Exchanges
Donald E. Rodriguez Long Beach, California	Executive Director Boys and Girls Club
David A. Travers (c) Los Angeles, California	Chief Operations Officer Farmers Group, Inc.
John T. Wuo Arcadia, California	President Real Estate Agency

(a) Resigned, effective September 18, 2014
(b) Replaced by Ronald L. Marrone as Director, effective June 4, 2014
(c) Replaced by David W. Louie as Director, effective March 18, 2014

Principal Officers

Name	Title
Robert D. Sadler	President
Ronald G. Myhan	Vice President and Treasurer
Doren E. Hohl	Secretary
Bryan F. Murphy (a)	Vice President
Karyn L. Williams	Vice President
James L. Nutting	Vice President
Jeffrey M. Sauls (b)	Vice President

(a) Replaced by Keith G. Daly as Vice President, effective March 18, 2014
(b) Replaced by Victoria L. McCarthy as Vice President, effective March 18, 2014

Intercompany Service Agreements

Farmers Group, Inc. (FGI), as the attorney-in-fact for the Farmers Insurance Exchange (Exchange), provides operating services (including staffing and occupancy), except claims adjustment services, to the Exchange.

Service Agreements - Effective March 1, 2010, the following California-domiciled affiliates are party to Service Agreements: the Company, Exact Property and Casualty Company, and Neighborhood Spirit Property and Casualty Company. Under these agreements, the Exchange provides management services and claims adjusting services. These Agreements were approved by the CDI on December 31, 2009.

The management fees for these services are calculated by book of business based on direct and assumed earned premiums. Pooling is then applied to obtain each company's pooled share of the underwriting fees, which are based on the appropriate expense classifications according to the cost incurred by FGI, the attorney-in-fact providing management services to the Exchange.

For 2010, 2011, 2012, and 2013, the pooled share of the fees paid by the Company and its parent and affiliates for the above services was as follows:

Company	Subscription Fees Paid to Farmers Group, Inc (for Exchange Issued Policies)			
	2013	2012	2011	2010
Farmers Insurance Exchange	$ 1,376,529,848	$ 1,215,144,121	$ 1,306,619,473	$ 1,170,817,073
Truck Insurance Exchange	206,146,982	181,978,105	195,677,313	175,339,755
Fire Insurance Exchange	199,497,079	176,107,844	189,365,141	169,683,634
Mid-Century Insurance Company	425,593,769	375,696,733	403,978,968	361,991,752
Civic Property and Casualty Company	26,599,611	23,481,046	25,248,686	22,624,484
Exact Property and Casualty Company	26,599,611	23,481,046	25,248,686	22,624,484
Neighborhood Spirit Property and Casualty Company	26,599,611	23,481,046	25,248,686	22,624,484
Subtotals	$ 2,287,566,511	$ 2,019,369,941	$ 2,171,386,953	$ 1,945,705,666
All Other Affiliates	372,394,547	328,734,641	353,481,596	589,038,148
Totals - Paid	$ 2,659,961,058	$ 2,348,104,582	$ 2,524,868,549	$ 2,534,743,814

Non-Affiliated Management Agreements

Third Party Administrator Agreement - Effective November 1, 2000, a Third Party Administrator Agreement was entered into by Zurich Services Corporation (ZSC) with the Company, Farmers Insurance Exchange, Truck Insurance Exchange, Mid-Century Insurance Company, Exact Property and Casualty Company, and Neighborhood Spirit Property and Casualty Company. Under this Agreement, ZSC provides claims administration and risk engineering services which are subject to a reinsurance agreement for equipment breakdown coverage provided by Zurich American Insurance Company.

Investment Management Agreements

Investment Management Agreement - Farmers Group, Inc. (FGI), acting on behalf of the Farmers Insurance Exchange (Exchange), Fire Insurance Exchange (Fire), Truck Insurance Exchange (Truck) and the subsidiaries of these three Exchanges, entered into an Investment Management Agreement dated July 1, 1998 with its affiliate, Scudder Kemper Investments Inc. (Scudder). In 2002, Scudder was acquired and replaced by Deutsche Asset Management (DeAM), a division of Deutsche Bank, AG. DeAM, a non-affiliate, managed the fixed income and equity asset portfolios of the Exchange, Fire, Truck and their subsidiaries. The terms of the Agreement have otherwise not been altered.

Service Level Agreement - FGI was also a party to the Service Level Agreement dated November 4, 1998 with Scudder, which was replaced in 2002 by DeAM. DeAM, a non-affiliate, provided accounting and reporting services in connection with the Exchange, Fire, Truck and the stock subsidiaries' investment portfolios, including Securities Valuation Office reporting. DeAM was given the authority to vote the proxies of the common stock. The terms of the Agreement were left unchanged except for the replacement of parties.

Tax Sharing Agreement

Pursuant to a Tax Sharing Agreement effective September 30, 2008, the federal income tax returns for the Company and several affiliates are consolidated with Fire Insurance Exchange. This Agreement was approved by the CDI on August 17, 2010.

Allocation of taxes is based upon separate return calculations with intercompany tax balances (payable or receivable) being settled in amounts equal to the amounts which would be due to or from federal taxing authorities as if separate returns were filed.

The Company's portion of the federal income taxes paid (recovered) under the Tax Sharing Agreement for 2010, 2011, 2012, and 2013 was $1,010,278, ($2,024,993), $3,088,000, and $5,077,701, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business in the states of California, Georgia, Michigan, Missouri, Ohio, and Pennsylvania.

In 2013, the Company wrote $11.6 million of direct premiums. Of the direct premiums written, $5.5 million (47.3%) was written in California, $4.9 million (42.4%) was written in

Pennsylvania, $1 million (8.7%) was written in Ohio, and $183,661 (1.6%) was written in the remaining states.

The homeowners multiple peril (48%), fire (28%), and allied lines (15%) lines account for 91% of the direct writings of the Company. The Company is also a 1.0% participant in the inter-company pooling agreement. Farmers Insurance Exchange (Farmers) and its pooled subsidiaries and affiliates write most of the property and casualty lines of business with a heavy emphasis on personal lines. The principal lines assumed by the Company from Farmers (the lead insurer in the Intercompany Pooling Agreement) were private passenger automobile liability, homeowners multiple peril, and automobile physical damage.

Business is produced by an agency force of more than 51,000 agents (including approximately 13,000 exclusive agents) and is supported by 29 state offices, 11 service centers, and 200 branch claim offices.

LOSS EXPERIENCE

The following schedule reflects the 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, 2014:

Year	Net Premiums Earned	Net Underwriting Gains/(Losses)	Net Investment Gains/(Losses)	Net Income/(Losses)
2010	$ 106,584,450	$ (6,192,676)	$ 7,137,641	$ (1,101,390)
2011	145,434,456	(10,904,272)	7,172,960	(960,805)
2012	136,728,591	(5,755,502)	12,239,469	8,005,453
2013	137,244,304	(2,184,399)	13,491,467	10,995,091
Sub-totals	$ 525,991,801	$ (25,036,849)	$ 40,041,537	$ 16,938,349
2014	135,826,345	(2,042,029)	17,509,694	15,028,949
Totals	$ 661,818,146	$ (27,078,878)	$ 57,551,231	$ 31,967,298

The Company reported net underwriting losses in all years under examination and through December 31, 2014. In aggregate, the Company reported $27.1 million of net underwriting losses for the five years from 2010 through 2014.

The Company's operating performance was impacted by severe weather-related catastrophe losses in the mid-western and southern states, increased other expenses resulting from its expansion to the eastern states, and increased advertising costs. Underwriting results were also impacted by current market and economic conditions in recent years. This trend of higher than anticipated storm and weather related catastrophe losses (including the impact of Hurricane Sandy) continued through 2012. In 2013 and 2014, the Company's operating results improved as compared to previous years primarily due to less severe catastrophic losses.

The Company has taken substantial actions to improve its underwriting performance in both personal and commercial lines. Personal lines initiatives included strengthening underwriting guidelines and risk selection criteria, as well as the adjustment of rates on a more local level. The Farmers Group implemented premium rate increases, and continues to refine its risk scoring mechanism for personal automobile to facilitate more accurate segmentation and pricing of this business. Significant attention was also given to introducing more disciplined claims-settling practices for the Group's homeowners business. In commercial lines, aggressive re-underwriting and re-pricing occurred in most lines as well as segmentation that helped to reduce underperforming risks.

REINSURANCE

Intercompany Reinsurance and Pooling Agreement

The Farmers Insurance Exchange (FIE) is the lead insurer in an Intercompany Reinsurance and Pooling Agreement under which the Company and the insurers listed below pool their risks and obtain a proportional share of profits and/or losses of the

pooled business. The Agreement became effective on January 1, 1999. Under the Agreement, business is allocated among the pool participants as follows:

Pool Participant	**Percentage**
Farmers Insurance Exchange (FIE)	51.75
Mid-Century Insurance Company	16.00
Truck Insurance Exchange	7.75
Fire Insurance Exchange	7.50
Farmers Insurance Company of Oregon	7.00
Farmers Insurance Company of Washington	2.00
Civic Property and Casualty Company	1.00
Exact Property and Casualty Company	1.00
Neighborhood Spirit Property and Casualty Company	1.00
Texas Farmers Insurance Company	1.00
Farmers Insurance of Columbus, Inc.	1.00
Farmers Insurance Company, Inc.	0.75
Illinois Farmers Insurance Company	0.75
Farmers New Century Insurance Company	0.75
Farmers Insurance Company of Idaho	0.75
Total	100.00

The last amendment to this long-standing pooling agreement was approved by the California Department of Insurance (CDI) on January 12, 1999.

Assumed

Other than a participation in the intercompany pool, the Company has no reinsurance assumed.

Ceded

Affiliated

Treaties ceding risks to affiliated reinsurers were written with FIE and all of its subsidiaries and affiliates (including the Company) as the cedents. The following is a

summary of the principal affiliated ceded reinsurance treaties in-force as of December 31, 2013:

Effective January 1, 2012, FIE entered into the 2012 Automobile Physical Damage Agreement of Reinsurance (APDAR), a quota share reinsurance agreement that covers automobile physical damage. This Agreement supersedes the 2009 APDAR. Under the Agreement, FIE, on behalf of itself and its pooling participants (including the Company), cedes up to $1 billion per year of its automobile physical damage premiums. Through December 31, 2012, the subscribing reinsurers were Farmers Reinsurance Company (Farmers Re), with a 20% quota share participation, and Zurich Insurance Company (Zurich), with an 80% quota share participation. Effective January 1, 2013, Farmers Re reduced its quota share participation from 20% to 12.5%, with a non-affiliated reinsurer undertaking the 7.5% quota share participation from Farmers Re. Effective January 1, 2014, Farmers Re reduced its quota share participation from 12.5% to 10.0%, with a non-affiliate reinsurer undertaking the 2.5% quota share participation from Farmers Re. The CDI approved this Agreement on January 31, 2014.

FIE, effective June 30, 2009, entered into the All Lines Quota Share Agreement of Reinsurance, a quota share reinsurance agreement that covers all lines after the APDAR agreement has been applied. Zurich and Farmers Re were the original subscribing reinsurers. Their aggregate participation was originally at 37.5%, and was subsequently reduced from 37.5% to 35% effective December 31, 2009, from 35% to 25% effective June 30, 2010, and from 25% to 12% effective December 31, 2010. Effective December 31, 2011, the aggregate participation was increased from 12% to 20%. Effective December 31, 2012, the quota share participation of Farmers Re was reduced from 4% to 2.5%, thus reducing the aggregate participation of Zurich and Farmers Re from 20% to 18.5%. A non-affiliated reinsurer undertook the 1.5% quota share participation from Farmers Re. An amendment, effective December 31, 2013, reduced the quota share participation of Farmers Re from 2.5% to 2.0%, thus reducing the aggregate participation of Zurich and Farmers Re from 18.5% to 18%. A non-affiliated reinsurer undertook the

.5% quota share participation from Farmers Re. The CDI approved the December 31, 2013 amendment to this Agreement on January 31, 2014.

There are a series of 100% Equipment Breakdown Quota Share Reinsurance Agreements effective November 1, 2000, under which Zurich American Insurance Company reinsure the Company and certain of its affiliates for specified industry programs.

Non-Afiliated

The Company, along with its parent and affiliates, were listed as cedents on various treaties ceding risk on an excess-of-loss basis to non-affiliated reinsurers.

As of December 31, 2013, reinsurance recoverables totaled $15.6 million, or 14.4% of surplus as regards policyholders. All of the ceded reinsurance recoverables were attributable to the Intercompany Pooling Agreement.

ACCOUNTS AND RECORDS

As part of this examination, a review was made of the Company's general controls over its information systems. The review focused on information technology (IT) governance, logical access, physical security, change management, and disaster recovery/business continuity plan. As a result of the review, deficiencies were noted primarily in the area of access controls. These findings were presented to the Company along with recommendations to strengthen its controls. Many of the issues have been remediated at the time of this report. It is recommended that the Company continue to address the recommendations made regarding its information systems controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders
from December 31, 2009 through December 31, 2013

Statement of Financial Condition
as of December 31, 2013

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 175,956,449	$	$ 175,956,449	
Common stocks	55,780,374		55,780,374	
Cash, cash equivalents and short-term investments	914,690		914,690	
Other invested assets	1,062,274		1,062,274	
Receivable for securities	59,274		59,274	
Investment income due and accrued	1,381,268		1,381,268	
Uncollected premiums and agents' balances in course of collection	3,829,513	1,146,376	2,683,137	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	23,830,070		23,830,070	
Accrued retrospective premiums	23,911		23,911	
Amounts recoverable from reinsurers	536,959		536,959	
Net deferred tax asset	2,575,563		2,575,563	
Total assets	$ 265,950,345	$ 1,146,376	$ 264,803,969	

Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 79,407,514	(1)
Reinsurance payable on paid loss and loss adjustment expenses			8,146,578	
Other expenses			102,197	
Unearned premiums			59,971,971	
Advance premiums			1,479,237	
Dividends declared and unpaid: Policyholders			30,766	
Ceded reinsurance premiums payable			517,352	
Amounts withheld or retained by company for account of others			25,567	
Remittances and items not allocated			69,709	
Payable to parent, subsidiaries and affiliates			5,845,936	
Aggregate write-ins for liabilities			717,528	
Total liabilities			156,314,355	
Common capital stock		$ 5,000,000		
Gross paid in and contributed surplus		60,000,000		
Unassigned funds (surplus)		$ 43,489,614		
Surplus as regards policyholders			108,489,614	
Total liabilities, surplus and other funds			$264,803,969	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2013

Statement of Income

Underwriting Income		
Premiums earned		$ 137,244,305
Deductions:		
Losses incurred	$ 78,248,615	
Loss adjustment expenses incurred	13,805,950	
Other underwriting expenses incurred	47,374,139	
Total underwriting deductions		139,428,704
Net underwriting loss		(2,184,399)
Investment Income		
Net investment income earned	$ 6,224,521	
Net realized capital gains	7,266,946	
Net investment gain		13,491,467
Other Income		
Net loss from agents' or premium balances charged off	$ (1,052,698)	
Finance and service charges not included in premiums	2,372,769	
Aggregate write-ins for miscellaneous income	(460,762)	
Total other income		859,309
Net income before dividends to policyholders and before federal income taxes		12,166,377
Dividends to policyholders		9,694
Federal income taxes incurred		1,161,592
Net income		$ 10,995,091

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		$ 93,441,737
Net income	$ 10,995,091	
Change in net unrealized capital gains	4,274,801	
Change in net deferred income tax	(192,956)	
Change in nonadmitted assets	(20,480)	
Aggregate write-ins for gains and losses in surplus	(8,579)	
Change in surplus as regards policyholders for the year		15,047,877
Surplus as regards policyholders, December 31, 2013		$108,489,614

Reconciliation of Surplus as Regards Policyholders
from December 31, 2009 through December 31, 2013

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2009 per Examination			$ 86,551,770
Net income	$ 16,938,349	$	
Change in net unrealized capital gains	4,579,017		
Change in net deferred income tax	454,237		
Change in nonadmitted assets		141,978	
Aggregate write-ins for gains and losses in surplus	108,219		
Total gains and losses	$ 22,079,822	$ 141,978	
Net increase in surplus as regards policyholders			21,937,844
Surplus as regards policyholders, December 31, 2013, per Examination			$ 108,489,614

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company was directed by the California Department of Insurance (CDI), under California Insurance Code (CIC) Section 733(g), to retain the American Actuarial Consulting Group, LLC, (AACG) for the purpose of assisting this examination in determining the reasonableness of the Company's loss and loss adjustment expense reserves. Since the business of the Company was pooled, it was necessary to review the losses on a group-wide basis. Based on the analysis by AACG and the review of their work by a Casualty Actuary from the CDI, the Company's December 31, 2013 reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 20): It is recommended that the Company continue to address the recommendations made regarding its information systems controls.

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/

Richard M. Stone, CFE
Examiner-In-Charge
Contract Insurance Examiner
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