REPORT OF EXAMINATION

OF THE

INSURANCE COMPANY OF THE WEST

AS OF

DECEMBER 31, 2012

Filed June 20, 2014

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Los Angles, California
March 27, 2014

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

INSURANCE COMPANY OF THE WEST

(hereinafter also referred to as the Company) at its home office located at 11455 El Camino Real, San Diego, California 92130.

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.

The examination was a coordinated examination and was conducted concurrently with the examinations of other insurance entities in the holding company group, including Explorer Insurance Company (California), Independence Casualty and Surety Company (Texas), and Explorer American Insurance Company (California). California served as the lead state.

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; and statutory deposits.

COMPANY HISTORY

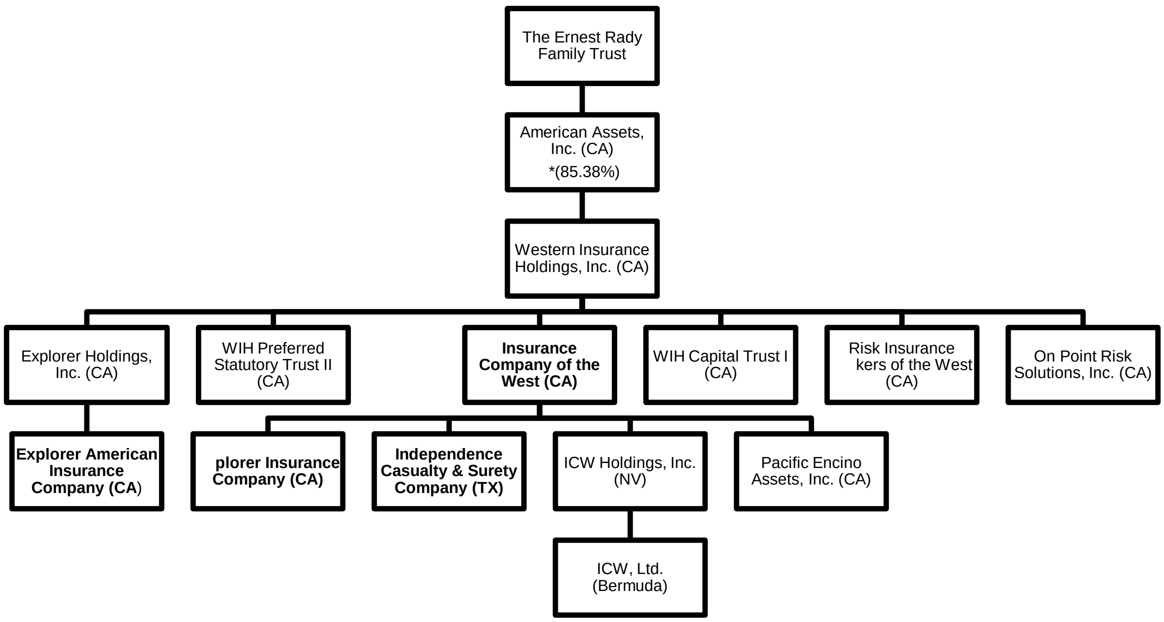
Capitalization

In 2012, the Company received a cash contribution of $12.5 million from its parent company, Western Insurance Holdings, Inc.

In 2012, the Company made a cash contribution of $4 million to its wholly-owned subsidiary, ICW Holdings, Inc.

MANAGEMENT AND CONTROL

Ultimate control of the Company is maintained by the Ernest S. Rady Family Trust. The following organizational chart depicts the Company's relationship within the holding company system (all ownership is 100%, unless otherwise noted):



*Remaining ownership of Western Insurance Holdings, Inc. is held by the Ernest S. Rady Family Trust (10.82%), Company Officers (2.1%), and Stock Purchase and Saving Plan (1.7%).

A review of the bylaws indicated that the Company was not in compliance with the authorized number of acting directors. Pursuant to the bylaws, “The authorized number of directors of the corporation shall be thirteen.” Contrary to the requirement, the Company had nine directors serving on its Board as of December 31, 2012. It is recommended that the Company implement procedures to ensure compliance with its bylaws.

The nine 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
Bernard M. Feldman Del Mar, California	Vice Chairman Insurance Company of the West
Henry M. Freet Escondido, California	Independent Director Insurance Company of the West
Gene P. Irizarry Fallbrook, California	Independent Director Insurance Company of the West
Kevin M. Prior San Diego, California	President and Chief Executive Officer Insurance Company of the West
Ernest S. Rady La Jolla, California	Chairman of Board Insurance Company of the West
Charles E. Scribner La Jolla, California	Independent Director Insurance Company of the West
Lawrence W. Shea La Jolla, California	Independent Director Insurance Company of the West
James E. Tecca Laguna Niguel, California	Independent Director Insurance Company of the West
John H. Warner, Jr. La Jolla, California	Independent Director Insurance Company of the West

Principal Officers

Name	Title
Kevin M. Prior	President and Chief Executive Officer
David G. Hoppen	Senior Vice President
Shawn D. Adams	Senior Vice President
R. Steven Marshall	Senior Vice President
Paul F. Zamora	Senior Vice President
Richard J. Manship	Senior Vice President
Fariborz Rostamian	Vice President and Controller
Mary E. Cannon	Vice President and Secretary
Sheryl M. Hadlen	Vice President
Waleed Sharaf	Vice President
Amanda J. Granger	Vice President
Susan L. Karlan	Vice President

Name	Title
Veronica J. Meyers	Vice President

Management Agreements

Tax Allocation Agreement: Since January 1, 1996, the Company and its affiliates have been parties to a Tax Allocation Agreement with its ultimate parent, American Assets, Inc. Allocation of taxes is based upon separate return calculations with current credit for net losses. This agreement did not require prior approval by the California Department of Insurance (CDI), as it was executed prior to January 1, 1997. The Company paid/recovered the following taxes during the examination period:

Year	Amount
2010	$ 3,782,842
2011	$ 2,725,957
2012	$ (798,557)
Total	$ 5,710,242

Intercompany Affiliated Service Agreement (Risk Insurance Brokers of the West): Effective June 11, 2010, the Company and its affiliate, Risk Insurance Brokers of the West (RIBW), entered into an Intercompany Affiliated Service Agreement, whereby, the Company provides for certain services and facilities continuously, and as needed by RIBW. The basis for determining fees is based on 9.6% of premiums written by RIBW. Management fees incurred during the period under review were $4,586; $758,946; and $467,210 for 2010; 2011; and 2012, respectively. This agreement was approved by the CDI on April 29, 2011.

Intercompany Affiliated Service Agreement (On Point Risk Solutions, Inc.): Effective October 25, 2011, the Company and On Point Risk Solutions, Inc. (OPRS) entered into an Intercompany Affiliated Service Agreement, whereby, the Company provides for certain services and facilities continuously, and as needed by OPRS to conduct its business. In addition, the Company also receives from OPRS adjuster services, risk management services, and other claim services with respect to claims arising under certain insurance contracts written by the Company. The basis for determining fees for these services is based on direct and directly allocable expenses incurred by the Company that are determined to be attributable to OPRS. No management fees were incurred during the examination period under review. This agreement was approved by the CDI on May 6, 2011.

Investment Management Agreement: Effective January 1, 2007, the Company's parent, Western Insurance Holdings, Inc. (WIHI) entered into an Investment Management Agreement with non-insurance affiliate American Assets Investment Management, LLC. Under the terms of the agreement, WIHI appointed American Assets Investment Management, LLC as its Investment Manager to provide investment advisory services for WIHI's investment portfolio, including its insurance subsidiaries. The services performed by American Investment Management, LLC are subject to the direction and control of the Company's board of directors and/or appointed investment committee. During the examination period, investment management fees incurred were $1,684,000; $1,962,000; and $1,831,000 for 2010; 2011; and 2012, respectively. All investment management fees were paid by WIHI, and paid to American Assets Investment Management under the terms of this agreement.

The Investment Management Agreement was not disclosed in the Company's Annual Holding Company Registration Statement Form B filing, and the CDI has no record of its approval. It is recommended the Company disclose this agreement in its Annual Holding Company Registration Statement Form B in accordance with California Insurance Code Section (CICS) 1215.4(b), and submit the agreement to the CDI for approval in accordance with CICS1215.5(b)(4).

Management Services Agreement

The Company engages in recurring transactions including but not limited to the following: accounting, actuarial, auditing, actuarial, finance, taxes, claims management, information technology, loss control, investments, human resources, and underwriting, etc. with related parties (Explorer Insurance Company and Independence Surety and Casualty Company), for which there is no formal written agreement to clearly identify the parties involved, cost basis of incurred expenses or fees, and timely settlement for amounts owed.

It is recommended the Company ensure that all on-going services provided among related parties are covered in the form of a written agreement. It is also recommended that the Company prepare written management services agreements that clearly identify the entities providing the services, the nature of the services provided, sets forth appropriate methods to allocate costs between parties for services rendered and provides for timely settlements of amounts owed. Lastly, the agreement should be written in accordance with CICS 1215.5 and submitted to the CDI for approval in accordance with CICS 1215.5(b)(4).

<u>Related Party Transactions</u>

Upon review of a summary listing of related party transactions it was noted that not all significant related party transactions were disclosed within the Company's Annual Holding Company Registration Statement Form B filing as noted below:

1) On July 11, 2012, the Company purchased the following investment from WIHI: Irving Place Capital Partners private equity for $14,477,416. This transaction between affiliates was not reported in the Annual Holding Company Registration Statement Form B. It is recommended that the Company report transactions between affiliates in its Annual Holding Company Registration Statement Form B in accordance with CICS 1215.4(b).
2) In 2012, the Company received from its immediate parent, Western Insurance Holdings, Inc., a cash capital contribution of $12.5 million. This transaction between affiliates was not reported in the Annual Holding Company Registration Statement Form B. It is recommended that the Company report transactions between affiliates

in its Annual Holding Company Registration statement Form B in accordance with CICS 1215.4(b).

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed and authorized to write various property and casualty lines of insurance in all 50 states and the District of Columbia.

During 2012, the Company wrote $387.2 million of direct premiums; 82% pertained to its workers' compensation business, and the remainder consisted primarily of earthquake coverage. Of the total direct premiums written, $321 million (83%) was written in California; $30.2 million (8%) was written in Illinois; and $14 million (4%) was written in Nevada. Business is generated through a combination of independent agents, wholesale brokers, and Company-owned branch offices.

Branch offices are maintained in Sacramento, Pleasanton, and Woodland Hills, California; Lisle (Chicago), Illinois; Austin, Texas; Las Vegas, Nevada; Matthews, North Carolina; King of Prussia (Philadelphia), Pennsylvania; and Orlando, Florida.

The Company plans to expand its workers' compensation business into additional states in the next few years. The planned state expansion includes Indiana, Iowa, Georgia, Kentucky, Maryland, Michigan, New Jersey, New York, Pennsylvania, Tennessee, Texas, Virginia, and Wisconsin. The Company is already licensed in all of these states, but plans to put forth additional marketing and expansion efforts to grow their business.

GROWTH OF COMPANY

The Company has experienced significant growth during and subsequent to, this examination period as shown in the following table:

Year	Admitted Assets	Surplus as Regards Policyholders	Gross Premiums Written	Net Premiums Written	Net Underwriting Gain/(Loss)	Net Income (Loss)
2010	869,868,636	375,042,651	246,959,890	319,560,186	(12,241,935)	13,725,743
2011	875,600,460	350,407,647	272,894,712	284,652,056	(28,308,542)	(1,321,918)
2012	1,032,332,100	417,490,854	387,252,128	367,461,593	5,563,617	14,361,041
2013*	1,314,510,758	533,544,296	592,020,930	514,821,870	77,073,809	68,767,316

*Through December 31, 2013

The Company's premium growth is primarily from workers' compensation insurance and is attributable to rate increases and an improving California economy. The Company has also commenced marketing and increasing their workers' compensation writings in new markets. Furthermore, the Company has been able to take advantage of their investment strategy to improve their technology, and align their underwriting and marketing strategy to increase their workers' compensation premium writings.

LOSS EXPERIENCE

A review of the Company's loss experience during the examination period disclosed a significant net underwriting loss in 2011 as depicted in the schedule below:

Year	Net Underwriting Gain/(Loss)	Net Income (Loss)	Surplus as Regards Policyholders
2010	(12,241,935)	13,725,743	375,042,651
2011	(28,308,542)	(1,321,918)	350,407,647
2012	5,563,617	14,361,041	417,490,854

In 2011, the Company reported a one-year unfavorable reserve development of $46.2 million. Additional factors contributed to the aforementioned net underwriting losses include: economic factors related to their surety and workers' compensations lines; unprecedented catastrophic losses on assumed reinsurance through their participation in Industry Loss Warranty contracts covering perils such as wind, flood and quake; and overall poor operational results from their surety and automobile lines of business during the examination period.

The Company implemented corrective actions by deciding to discontinue their surety operations in the third Quarter of 2010. Furthermore, management adjusted their marketing and underwriting strategy by significantly reducing the amount of premium writings in their automobile line. Beginning in 2011, the Company and its wholly owned subsidiary, Explorer Insurance Company, discontinued issuing new automobile business in Florida. Lastly, as discussed in the Growth of Company Section of this report, the Company changed their overall marketing and underwriting strategy by placing more emphasis on growing and expanding their workers' compensation line.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

The Company is the lead insurer in an intercompany reinsurance pooling agreement with two of its subsidiaries, Explorer Insurance Company, and Independence Casualty and Surety Company (hereinafter also referred to as the Participants). Under the terms of this agreement, dated December 31, 1995, the Participants cede and the Company assumes 100% of the Participants' business generated from underwriting operations. The cessions from the Participants are combined with the Company's business, resulting in the pooled balance to be allocated to each company in the pool. The following table illustrates each Participant's pooled share as of December 31, 2012:

Company	State of Domicile	Pooling Share
Insurance Company of the West	CA	83.5%
Explorer Insurance Company	CA	15.0%
Independence Casualty and Surety Company	TX	1.5%
Pool Total		100.0%

The agreement provides that receivable and payable balances are to be settled within 30 days of the receipt of the monthly report.

Other Intercompany Reinsurance

The Company has workers' compensation excess of loss reinsurance contracts with its wholly owned subsidiary, ICW, Ltd., a Bermuda corporation. The Company reported $22.9 million as funds held under this reinsurance treaty and no reinsurance recoverable of December 31, 2012. The reinsurance coverage under these agreements is summarized in the reinsurance chart below.

Assumed

In addition to the aforementioned intercompany reinsurance pooling agreement, the Company assumes reinsurance as a subscribing reinsurer to Industry Loss Warranty contracts. The contracts cover the reinsured(s) in event of catastrophic events and perils such as wind, flood, and quake. The Company's exposure in these contracts is limited to its assumed participation in the pool under the terms of these contracts.

Ceded

The Company has designed its reinsurance program to limit its retention to $1 million for workers' compensation, $3 million for difference in condition, and $50 million for catastrophe coverage. The Company's reinsurance program is summarized in the chart below:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Workers' Compensation:			
Excess of Loss	100.00% ICW Ltd. (U)	$1 million	$4 million excess of $1 million
Excess of Loss	100.00% ICW Ltd. (U)	$5 million	$5 million excess of $5 million
1st Excess of Loss	26.75% Safety National Casualty Corporation (A)	$10 million	$30 million excess of $10 million

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
	18.00% Catlin Insurance Company Ltd (U) 16.50% Lloyd's Underwriters (A) 7.50% Partner Reinsurance Company Ltd (U) 7.50% Alterra (U) 7.50% Endurance Specialty Insurance Ltd (U) 6.25% Tokio Millennium Re Ltd (U) 5.00% Arch Reinsurance Company (A) 5.00% Montpelier Reinsurance Ltd (U)		
2rd Excess of Loss	17.50% Lloyd's Underwriters (A) 13.00% Tokio Millennium Re Ltd (U) 10.75% Catlin Insurance Company Ltd (U) 9.00% Validus (U) 7.75% Montpelier Reinsurance Ltd (U) 7.50% Partner Reinsurance Company Ltd (U) 5.00% Arch Reinsurance Company (A) 4.00% Endurance Specialty Insurance Ltd (U) 3.50% Alterra (U) 2.00% Safety National Casualty Corporation (A)	$40 million	$25 million excess of $40 million
Difference In Condition:			
Alternate DIC Property Catastrophe Excess of Loss	75.00% Lloyd's Underwriters (A) 25.00% SCOR UK Company Limited (U)	$3 million	$7 million excess of $3 million
Property Catastrophe Excess:			
1st Property Catastrophe Excess	38.75% Lloyd's Underwriters (A) 10.00% Amlin Underwriting Ltd (U) 9.75% QBE Reinsurance Corporation (A) 6.50% SCOR UK Company Limited (U) 4.50% Flagstone Reassurance Suisse SA (U) 4.00% R + V Versicherung AG (U) 2.00% Paladin Cat Mgmt/ Protective Insurance Company (U) 1.50% Liberty Syndicate Services (A) 1.50% American Agricultural Insurance Company (A) 1.00% Employers Mutual Casualty Company (A) 0.50% Lanforsakringar Sak Forsakringsaktiebolag (U)	$50 million	80% of $25 million excess of $50 million
2nd Property Catastrophe Excess	42.00% Lloyd's Underwriters (A) 10.00% Amlin Underwriting Ltd. (U)	$75 million	$25 million excess of $75 million

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
	7.50% Partner Reinsurance Company Ltd (U) 6.25% SCOR UK Company Limited (U) 6.00% R + V Versicherung AG (U) 5.00% Odyssey America Reinsurance Corp (A) 5.00% QBE Reinsurance Corporation (A) 4.50% Flagstone Reassurance Suisse SA (U) 3.00% Tokio Millennium Re Ltd (U) 2.00% Paladin Cat Mgmt/ Protective Insurance Company (U) 2.00% Everest Reinsurance Company (A) 2.00% XL Re (U) 1.75% Liberty Syndicate Services (A) 1.50% American Agricultural Insurance Company (A) 1.00% Employers Mutual Casualty Company (A) 0.50% Lanforsakringar Sak Forsakringsaktiebolag (U)		
3rd (a) Property Catastrophe Excess	26.75% Lloyd's Underwriters (A) 10.00% Flagstone Reassurance Suisse SA (U) 9.00% Hiscox Insurance Company Ltd (U) 8.00% SCOR UK Company Limited (U) 7.50% Partner Reinsurance Company Ltd (U) 5.50% Hannover Re (Bermuda) (U) 5.00% Transatlantic Reinsurance Company (A) 5.00% XL Re (U) 4.50% Alterra (U) 3.00% R + V Versicherung AG (U) 3.00% Tokio Millenium Re Ltd (U) 2.75% MS Frontier Reinsurance Ltd (U) 2.50% Allied World Assurance Company Ltd (U) 2.25% Odyssey America Reinsurance Corp (A) 1.50% Ariel Re (U) 1.50% American Agricultural Insurance Company (A) 0.75% Paladin Cat Mgmt/ Protective Insurance Company (U) 0.50% Employers Mutual Casualty Company (A) 0.50% DaVinci Reinsurance Ltd (U) 0.50% Renaissance Reinsurance Ltd (U)	$100 million	50% of $200 million excess of $100 million
3rd (b) Property Catastrophe Excess	31.50% Lloyd's Underwriters (A) 14.00% Partner Reinsurance Company Ltd (U) 7.00% XL Re (U)	$100 million	50% of $200 million excess of $100 million

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
	7.00% SCOR UK Company Limited (U) 5.00% Hiscox Insurance Company Ltd (U) 5.00% Validus (U) 4.00% Allied World Assurance Company Ltd (U) 3.50% SAC Re (U) 3.00% Renaissance Reinsurance Ltd (U) 3.00% DaVinci Reinsurance Ltd (U) 3.00% Odyssey America Reinsurance Corp (A) 3.00% Mapfre (U) 3.00% R + V Versicherung AG (U) 2.50% Ariel Re (U) 2.00% Alterra (U) 1.50% American Agricultural Insurance Company (A) 1.25% MS Frontier Reinsurance Ltd (U) 0.75% Paladin Cat Mgmt/ Protective Insurance Company (U)		
4th Property Catastrophe Excess	39.26% Lloyd's Underwriters (A) 15.00% Partner Reinsurance Company Ltd (U) 8.50% MS Frontier Reinsurance Ltd (U) 7.50% Partner Reinsurance Company Ltd (U) 6.50% SCOR UK Company Limited (U) 5.00% Ariel Re (U) 3.00% R + V Versicherung AG (U) 2.50% XL Re (U) 2.50% Mapfre (U) 2.00% American Agricultural Insurance Company (A) 2.00% Liberty Syndicate Services (A) 2.00% Hannover Re (Bermuda) (U) 1.00% DaVinci Reinsurance Ltd (U) 1.00% Paladin Cat Mgmt/ Protective Insurance Company (U) 1.00% Renaissance Reinsurance Ltd (U) 0.75% Employers Mutual Casualty Company (A) 0.50% Lanforsakringar Sak Forsakringsaktiebolag (U)	$300 million	$100 million excess of $300 million
5th Property Catastrophe Excess	61.75% Lloyd's Underwriters (A) 15.00% MS Frontier Reinsurance Ltd (U) 10.00% Tokio Millenium Re Ltd (U) 6.50% SCOR UK Company Limited (U) 2.00% Mapfre (U) 2.00% Hannover Re (Bermuda) (U) 1.75% Ariel Re (U) 1.00% American Agricultural Insurance Company (A)	$400 million	$40 million excess of $400 million

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits

(A) – Authorized
(U) – Unauthorized

Additionally, the Company utilizes the facultative reinsurance market as needed to increase capacity and mitigate certain underwritten risk exposures, in their difference in condition line of business.

ACCOUNTS AND RECORDS

Related Party Receivable/Payable Balances

The Company incorrectly reported "Payable to Parent, Subsidiaries and Affiliates" net of receivables from affiliates. It is recommended that the Company not offset receivables and payables or report balances net of each other, unless a valid right to offset exists in accordance with Statement of Statutory Accounting Principles Number 64.

Derivatives

The Company incorrectly reported a liability pertinent to the Company's written call options on the line caption "Payable for Securities." It is recommended that the Company report balances (i.e. either asset or liability) pertinent to the Company's written call options on the line caption "Derivatives" in accordance with the National Association of Insurance Commissioners (NAIC) Property & Casualty Annual Statement Instructions.

Cash Surrender Value of Life Insurance Policies

The Company incorrectly reported the balances of two cash surrender value of life insurance policies in line caption "Other Invested Assets". It is recommended that the Company report the balances of cash surrender value of life insurance policies in the line caption “Aggregate write-ins for other than invested assets” in accordance with NAIC Property & Casualty Annual Statement Instructions.

Premium Receivable/Commission Payable Balances

The Company incorrectly reported “Uncollected premiums and agents’ balances in course of collection” net of commissions payable. It is recommended that the Company not offset receivables and payables or report balances net of each other, unless a valid right to offset exists in accordance with Statement of Statutory Accounting Principles Number 64.

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	$ 438,783,266	$	$ 438,783,266	
Preferred stocks	7,257,576	1,407,550	5,850,026	
Common stocks	236,139,191		236,139,191	
Cash and short-term investments	122,581,346		122,581,346	
Other invested assets	118,713,716		118,713,716	
Receivable for securities	1,753,510		1,753,510	
Investment income due and accrued	3,663,451		3,663,451	
Premiums and agents' balances in course of collection	32,719,651	3,486,664	29,232,987	
Premiums, agents' balances and installments booked but deferred and not yet due (including $4,718,307 earned but unbilled premiums)	27,387,107		27,387,107	
Amount recoverable from reinsurers	4,364,980		4,364,980	
Other amounts receivable under reinsurance contracts	1,061,868		1,061,868	
Current federal and foreign income tax recoverable and interest thereon	8,124,180		8,124,180	
Net deferred tax asset	30,413,833	503,321	29,910,512	
Guaranty funds receivable or on deposit	1,911,085		1,911,085	
Electronic data processing equipment and software	28,907,072	26,764,591	2,142,481	
Furniture and equipment, including health care delivery assets	211,220	211,220		
Aggregate write-ins for other than invested assets	4,337,218	3,624,825	712,393	
Total assets	$ 1,068,330,270	$ 35,998,171	$ 1,032,332,199	

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses		$ 473,089,263	(1)
Reinsurance payable on paid loss and loss adjustment expenses		2,094,193	
Commissions payable, contingent commissions and other similar charges		3,263,560	
Other expenses		21,455,747	
Taxes, licenses and fees		2,042,418	
Unearned premiums		67,281,078	
Ceded reinsurance premiums payable		7,658,508	
Funds held by company under reinsurance treaties		25,029,023	
Amounts withheld or retained by company for account of others		2,286,040	
Remittances and items not allocate		1,008,922	
Provision for reinsurance		2,507,042	
Drafts outstanding		165,695	
Payable to parent, subsidiaries and affiliates		681,476	
Payable for securities		1,934,555	
Aggregate write-ins for liabilities		4,343,725	
Total liabilities		614,841,245	
Common capital stock	$ 4,200,000		
Gross paid-in and contributed surplus	140,481,658		
Unassigned funds (surplus)	272,809,196		
Surplus as regards policyholders		417,490,854	
Total liabilities, surplus and other funds		$1,032,332,099	

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

Statement of Income

Underwriting Income		
Premiums earned		$ 361,884,830
Deductions:		
Losses and loss expenses incurred	$ 258,144,520	
Other underwriting expenses incurred	98,176,694	
Total underwriting deductions		356,321,214
Net underwriting gain		5,563,616
Investment Income		
Net investment income earned	$ 20,401,675	
Net realized capital loss	(1,555,129)	
Net investment gain		18,846,546
Other Income		
Net loss from agents' or premium balances charged off (amount recovered $6,647,254 amount charged off $645,523)	$ (6,001,730)	
Finance and service charges not included in premiums	6,193,716	
Aggregate write-ins for miscellaneous losses	(111,480)	
Total other income		80,506
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		24,490,669
Dividends to policyholders		918,013
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		23,572,656
Federal and foreign income taxes incurred		9,211,615
Net income		$ 14,361,041

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2011		$ 350,407,647
Net income	$ 14,361,041	
Change in net unrealized capital gains	32,082,928	
Change in net deferred income tax	4,775,762	
Change in nonadmitted assets	7,734,731	
Change in provision for reinsurance	5,197,433	
Surplus adjustments:		
Paid-in	12,500,000	
Aggregate write-ins for losses in surplus	(9,568,688)	
Change in surplus as regards policyholders for the year		67,083,207
Surplus as regards policyholders, December 31, 2012		$ 417,490,854

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			$ 354,560,905
Net income	$ 26,764,866	$	
Net unrealized capital gains	31,282,986		
Change in net deferred income tax		5,447,710	
Change in nonadmitted assets		843,732	
Change in provision for reinsurance	4,381,896		
Surplus adjustments: Paid-in	12,500,000		
Aggregate write-ins for gains and losses in surplus		5,708,357	
Total gains and losses	$ 74,929,748	$ 11,999,799	
Net increase in surplus as regards policyholders			62,929,949
Surplus as regards policyholders, December 31, 2012, per Examination			$ 417,490,854

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2012 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control (Page 3): It is recommended that the Company implement procedures to ensure compliance with its bylaws.

Management Agreements – Investment Management Agreement (Page 6): It is recommended the Company report said agreement in its annual holding company registration statement Form B in accordance with California Insurance Code Section (CICS) 1215.4(b), and submit the agreement to the California Department of Insurance (CDI) for approval in accordance with CICS1215.5(b)(4).

Management Agreements – Management Services Agreement (Page 7): It is recommended the Company ensure that all on-going services provided amount related parties are covered in the form of a written agreement. It is also recommended that the Company prepare written management services agreements that clearly identify the entities providing the services, the nature of the services provided, sets forth appropriate methods to allocate costs between parties for services rendered and provides for timely settlements of amounts owed. Lastly, the agreement should be written in accordance with CICS 1215.5 and submitted to the CDI for approval in accordance with CICS 1215.5(b)(4).

Management Agreements – Related Party Transactions (Page 7): It is recommended that the Company report transactions between affiliates in its Annual Holding Company Registration Statement Form B in accordance with CICS 1215.4(b).

Accounts and Records – Related Party Receivable/Payable Balances (Page 16): It is recommended that the Company not offset receivables and payables or report balances net of each other, unless a valid right to offset exists in accordance with Statement of Statutory Accounting Principles (SSAP) No. 64.

Accounts and Records – Derivatives (Page 16): It is recommended that the Company report balances (i.e. either asset or liability) pertinent to the Company's written call options on the line caption "Derivatives" in accordance with National Association Insurance Commissioners (NAIC) Property & Casualty Annual Statement Instructions.

Accounts and Records – Cash Surrender Value of Life Policies (Page 16): It is recommended that the Company report the balances of cash surrender value of life insurance policies in line caption "Aggregate write-ins for other than invested assets" in accordance with NAIC Property & Casualty Annual Statement Instructions.

Accounts and Records – Premium Receivable/Commission Payable Balances (Page 16): It is recommended that the Company not offset receivables and payables or report balances net of each other, unless a valid right to offset exists in accordance with SSAP Number 64.

<u>Previous Report of Examination</u>

Accounts and Records – Information System Controls (Page 8): It was recommended that management review the policies and practices related to certain controls germane to the functions of business continuity planning, physical security, security and access controls and program change controls. The Company has compiled with this recommendation.

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,

_______/S/_________________
Joshua J. Johnson, CFE
Examiner-In-Charge
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