REPORT ON EXAMINATION

OF

TRANS PACIFIC INSURANCE COMPANY

AS OF

DECEMBER 31, 2004

DATE OF REPORT	MARCH 19, 2008
EXAMINER	ANNIE LAU, CFE

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

March 19, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22399 dated August 9, 2005, attached hereto, I have made an examination into the condition and affairs of Trans Pacific Insurance Company as of December 31, 2004, and submit the following report thereon.

Wherever the designations “the Company” or “TPI” appear herein without qualification, they should be understood to indicate Trans Pacific Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company’s administrative office located at 230 Park Avenue, New York, NY 10169.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2000. This examination covered the four-year period from January 1, 2001 through December 31, 2004. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2004. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"):

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
Loss experience
Reinsurance
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Trans Pacific Insurance Company ("TPI" or "the Company") was incorporated under the laws of the State of New York on January 21, 1982 and commenced business on the same date. The Company is a wholly-owned subsidiary of The United States Branch of The Tokio Marine & Nichdio Fire Insurance Co., Ltd. of Tokyo, Japan ("TMNF" or "The Branch"), an alien insurer with port of entry in the State of New York. Tokio Marine Management, Ltd. ("TMM"), a United States affiliate, represents the Company as its manager.

In 2002, The Tokio Marine and Fire Insurance Company, Limited of Tokyo, Japan ("TMF Japan") and The Nichido Fire and Marine Insurance Company, Limited of Tokyo, Japan ("Nichido Japan") integrated their management and business under a new publicly traded Japanese holding company called Millea Holdings, Inc. ("Millea"). In October 2004, TMF Japan finalized the merger with Nichido Japan. TMF Japan became the surviving entity and was renamed as Tokio Marine & Nichido Fire Insurance Co., Ltd. of Tokyo, Japan ("the Home Office"). In turn, the United State Branch was renamed as The United States Branch of Tokio Marine & Nichido Fire Insurance Co., Ltd. of Tokyo, Japan ("TMNF" or "the Branch").

Upon formation of Millea Holdings, Inc., the Company is subject to the holding company act in accordance with Article 15 of the New York Insurance Law effective April 1, 2002.

Capital is $5,000,000 consisting of 50,000 shares of common stock $100 par value per share. In 1989, the Company amended its charter to increase capital from $2,500,000 to $5,000,000 by issuing an additional 25,000 shares of $100 par value per share common stock. Gross paid in and contributed surplus remained at $10,000,000 during the examination period.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The board meets an average of one time a year. At December 31, 2004, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Caryn Angelson Scarsdale, NY	Vice President, Tokio Marine Management, Inc.
B. Steven Goldstein New York, NY	Senior Vice President, Secretary, General Counsel and Chief Compliance Officer, Tokio Marine Management, Inc.
David Gottschall Tarrytown, NY	Vice President, Tokio Marine Management, Inc.
Susumu Harada Riverside, CT	Corporate Planning Officer, Tokio Marine Management, Inc.
Ichiro Ishii Beverly Hills, CA	Corporate Planning Officer, Tokio Marine Management, Inc.
Yoshifumi Kobayashi New York, NY	Senior Vice President, Tokio Marine Management, Inc.
Aidan McManus Jersey City, NJ	Vice President, Tokio Marine Management, Inc.
Lawrence J. Moloney Sea Girt, NJ	Senior Vice President, Treasurer, Controller and Chief Financial Officer, Tokio Marine Management, Inc.
Hiroshi Narimatsu New York, NY	Chairman, President and Chief Executive Officer, Tokio Marine Management, Inc.
Masashi Oba Darien, CT	Corporate Planning Officer, Tokio Marine Management, Inc.
David Pieffer Bel Air, MD	Senior Vice President, Tokio Marine Management, Inc.
Kazuhiko Takashima San Gabriel, CA	Senior Vice President, Tokio Marine Management, Inc.
Mark Woods Astoria, NY	Vice President, Tokio Marine Management, Inc.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2004, the principal officers of the Company were as follows:

Name	Title
Hiroshi Narimatsu	President
B. Steven Goldstein	Secretary
Lawrence J. Moloney	Treasurer

B. Territory and Plan of Operation

As of December 31, 2004, the Company was licensed to write business in the District of Columbia and all fifty states except Louisiana, New Hampshire, New Mexico and Vermont. During the examination period, the Company only wrote workers' compensation insurance.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3(i)	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company was also licensed to transact workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers'

Compensation Act (Public Law No. 803. 69th Congress as amended; 33 USC Section 901 et seq. as amended).

Based on the lines of business for which the Company is licensed and the Company's current capital structure pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum capital and surplus to policyholders in the amount of $5,000,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

Direct Premiums Written

Calendar Year	New York State	Total United States	Premiums Written in New York State as a Percentage of United States Premium
2001	$964,418	$5,713,921	16.88%
2002	$689,885	$6,133,454	11.25%
2003	$300,209	$7,914,391	3.79%
2004	$492,891	$9,035,501	5.46%

C. Reinsurance

Assumed Reinsurance

Assumed reinsurance accounted for 4.8% of the Company's gross premium written at December 31, 2004, which was a slight increase from the last examination. The Company's assumed business was mainly derived from its participation in two involuntary pools, National Workers' Compensation Reinsurance Pool and Michigan Workers' Compensation Placement Facility. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 of the NAIC Accounting Practices and Procedures Manual for all of its assumed reinsurance business.

Ceded Reinsurance

The Company has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

Property Lines

The Company has two layers of property excess of loss coverage. The first layer covers $59 million excess of $1 million on any one risk and is subject to unlimited free reinstatements. The second layer covers $120 million excess of $60 million on any one risk and is subject to an annual aggregate of $360 million on all losses.

Casualty Lines

The Company entered into a casualty excess of loss agreement that covers casualty business for $29 million excess of $1 million per each loss occurrence for 12 months commencing April 1, 2003. The contract shall remain in force for an indefinite period. With respect to workers' compensation policies, the contract covers $25 million excess of $5 million per occurrence.

Sunrise Clause

The contract contains a “sunrise clause” which the reinsurer is also liable for claims made on and after April 1, 2003 for casualty losses occurred during the following periods:

Time Period	Limits
January 1, 1986 to December 31, 1986	95% of $19 million excess of $1 million
January 1, 1987 to December 31, 1987	95% of $18 million excess of $2 million
January 1, 1988 to December 31, 1988	$20 million excess of $2 million
January 1, 1989 to December 31, 1989	$20 million excess of $2 million
January 1, 1990 to December 31, 1990	$19 million excess of $5 million
January 1, 1991 to December 31, 1991	$19 million excess of $5 million

The sunrise clause does not cover losses that occurred prior to January 1, 1987 under the commercial general liability policies written on claims made basis. As of December 31, 2004, no losses were ceded under the sunrise clause.

The contract is subject to a maximum annual aggregation of $87 million which covers losses reported on a prospective basis and claims-made basis under the Sunrise Clause. The contract is subject to two free reinstatements.

Catastrophe Coverage

The Company has a catastrophe excess of loss coverage that covers $495 million excess of $5 million for each loss occurrence for policies classified as property, automobile physical damage and workers' compensation. The contract is subject to unlimited free reinstatements.

Marine Lines

The Company entered into two marine excess of loss reinsurance agreements effective April 1, 2003 for an indefinite period. The first layer covers $21,222,222 excess of $1 million per occurrence and is subject unlimited reinstatements. The second layer covers $77,777,778 excess of $22,222,222 per occurrence and is subject to an aggregate limit of $233,333,334 for all losses during the contract period.

The business covered under the aforementioned excess of loss reinsurance agreements was 100% ceded to an unauthorized affiliated reinsurer, Tokio Marine Europe Insurance Limited ("TMEI").

Quota Share

The Company has a 95% quota share reinsurance agreement with its United States parent, The United States Branch of Tokio Marine & Nichido Fire Insurance Co., Ltd. of Tokyo, Japan ("TMNF"), an authorized reinsurer. The quota share agreement covers all policies classified as workers' compensation and employers' liability effective January 1, 1995. The Department approved the agreement on March 14, 1995 in accordance with Article 15 of the New York Insurance Law.

Facultative

The Company also has an obligatory master facultative agreement with its Japanese parent, Tokio Marine & Nichido Fire Insurance Company, Limited of Tokyo, Japan ("the Home Office"), an unauthorized reinsurer, effective January 1, 1984. The Company receives a 30% ceding commission on gross ceded premiums.

Reinsurance agreements between the Company and its affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements subject to Article 15 of New York Insurance Law were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It was noted that the obligatory master facultative reinsurance agreement contains an improper clause for the "pass through" feature in the insolvency clause which states:

> "where the Reinsurer [without] the consent of the direct insured or insureds has assumed such policy obligations of the Company as direct obligations of the Reinsurer to the payee under such policies and in substitution of the obligations of the Company to such payees."
>
> The clause should say:
>
> "where the Reinsurer with the consent of the direct insured or insureds has assumed such policy obligations of the Company as direct obligations of the Reinsurer to the payee under such policies and in substitution of the obligations of the Company to such payees."

It is recommended that the Company amend its obligatory master facultative reinsurance agreements to include the proper insolvency clause and submit the agreements to the Department in accordance with Section 1505 of the New York Insurance Law. The Company subsequently submitted an amendment to the contract with the proper insolvency clause to the Department. The Department approved the amendment on May 23, 2006.

It was noted that the 95% quota share reinsurance agreement ("the quota share agreement") between TPI and TMNF allows arbitration to take place in a venue deemed by the panel to be in the best interest of the arbitration proceeding. According to the Department requirements, arbitration shall take place in the State of New York or in the home state of the ceding company.

Furthermore, the quota share agreement contains an excess of original policy limits clause without the New York limitation clause. Based on the Department review of case law, it has been established that it is against public policy for a New York insurer to be indemnified or to indemnify for acts of bad faith or fraud. The Company should add the following required clause to the excess of original policy limits clause of the quota share agreement:

> "In no event shall coverage be provided to the extent that such coverage is not permitted under laws of the State of New York."

It is recommended that the Company amend the 95% quota share reinsurance agreement to include the proper arbitration clause and excess of original policy limits clause and submit the agreement to the Department in accordance with Section 1505 of the New York Insurance Law. The Company subsequently submitted an amendment to the contract with the proper arbitration clause, extra contractual obligations clause and excess of original policy limits clause to the Department. The Department approved the amendment on May 23, 2006.

All ceded reinsurance agreements, except the aforementioned reinsurance agreements, in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause, meeting the requirements of Section 1308 of the New York Insurance.

When writing off commuted balances and amounts recoverable from liquidated reinsurers, the Company recorded the amounts written off through “other liabilities” and “miscellaneous expenses” rather than through the various underwriting accounts in which they were originally recorded. This practice is contrary to SSAP No. 62 paragraphs 56 and 60 of the NAIC Accounting Practices and Procedures Manual which states that uncollectible reinsurance balances and commuted balances shall be written off through the accounts, exhibits and schedules in which they were originally recorded.

It is recommended that the Company write off uncollectible reinsurance balances and commuted balances through the accounts in which they were originally recorded in compliance with SSAP No. 62 paragraphs 56 and 60 of the NAIC Accounting Practices and Procedures Manual.

In 2005, the Company established new procedures for writing off reinsurance recoverable on paid losses, case and IBNR reserves, and ceded balance payable. The Company also eliminated the balances in the other liability account for the immaterial balances previously written off. The Company has properly recorded the write-off amounts for reinsurance recoverable and payable for the 2005 annual statement.

Other than the aforementioned write-off practices, the examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer pursuant to Department Circular Letter No. 8 (2005). Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

During the period covered by this examination, the company commuted a non-marine casualty excess of loss contract. The commutation resulted in a small loss to the Company's surplus position as of December 31, 2004.

D. Holding Company System

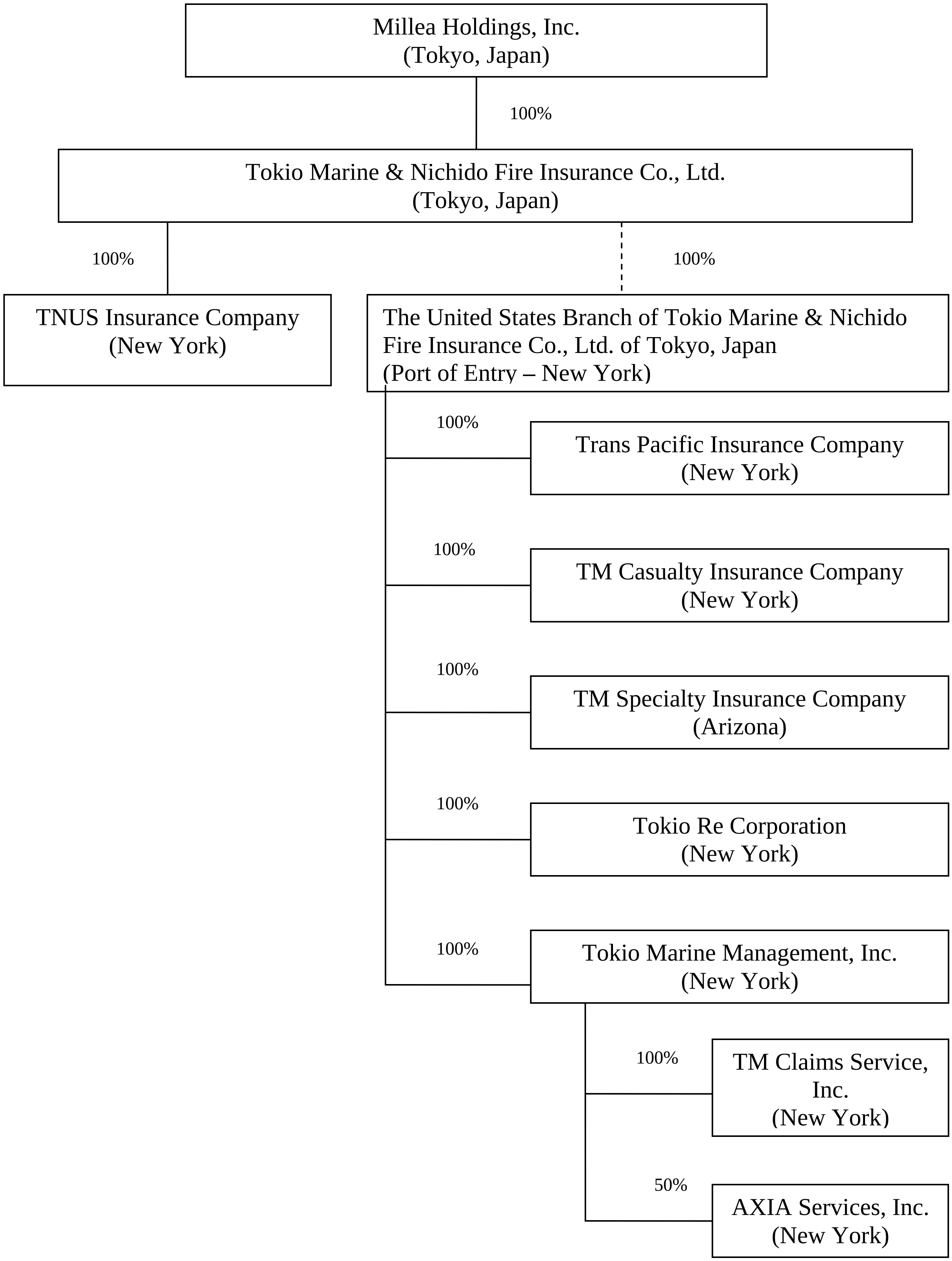
The Company is a wholly-owned subsidiary of the United States Branch of Tokio Marine & Nichido Fire Insurance Co., Ltd., of Tokyo, Japan. In turn, Tokio Marine & Nichido Fire Insurance Co, Ltd., of Tokyo, Japan is a wholly-owned subsidiary of its ultimate Japanese holding company parent, Millea Holdings Inc.

In 2002, The Tokio Marine and Fire Insurance Company, Limited of Tokyo, Japan ("TMF Japan") and The Nichido Fire and Marine Insurance Company, Limited of Tokyo, Japan ("Nichido Japan") integrated their management and business under a new publicly traded Japanese holding company called Millea Holdings, Inc. ("Millea"). In October 2004, TMF Japan finalized the merger with Nichido Japan. TMF Japan became the surviving entity and was renamed as Tokio Marine & Nichido Fire Insurance Co., Ltd. of Tokyo, Japan ("the Home Office"). In turn, the United States Branch was renamed as The United States Branch of Tokio Marine & Nichido Fire Insurance Co., Ltd. of Tokyo, Japan ("TMNF" or "the Branch").

Upon formation of Millea Holdings, Inc., the Company is subject to the holding company act in accordance with Article 15 of the New York Insurance Law effective April 1, 2002.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2004:


Millea Holdings, Inc.
(Tokyo, Japan)
100%
Tokio Marine & Nichido Fire Insurance Co., Ltd.
(Tokyo, Japan)
100%
100%
TNUS Insurance Company
(New York)
The United States Branch of Tokio Marine & Nichido Fire Insurance Co., Ltd. of Tokyo, Japan
(Port of Entry – New York)
100%
Trans Pacific Insurance Company
(New York)
100%
TM Casualty Insurance Company
(New York)
100%
TM Specialty Insurance Company
(Arizona)
100%
Tokio Re Corporation
(New York)
100%
Tokio Marine Management, Inc.
(New York)
100%
TM Claims Service, Inc.
(New York)
50%
AXIA Services, Inc.
(New York)

At December 31, 2004, the Company was a party to the following agreements with other members of its holding company system:

Management Agreement

Effective December 31, 1981, TPI appointed Tokio Marine Management Inc. ("TMM") as its manager for transaction of insurance business on behalf of the Company, inclusive of underwriting, claims handling and other necessary functions. The management agreement was replaced by an updated agreement effective January 1, 2006. The Department approved the updated management agreement on January 26, 2006 in accordance with Article 15 of the New York Insurance Law.

Reinsurance Agreements

The Company cedes 95% of its business under a 95% quota share reinsurance agreement with its United States parent, TMNF. The Company also cedes its business under the excess of loss and master obligatory facultative reinsurance agreements with its affiliates. The Department approved the affiliated reinsurance agreements in accordance with Article 15 of the New York Insurance Law. Limits of liability provided under the affiliated agreements are summarized in Section C – Reinsurance.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the Comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's abandoned property reports for the period of this examination were filed on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2004, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	1%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	30%
Premiums in course of collection to surplus as regards policyholders	3%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	Amounts	Ratios
Loss and loss adjustment expenses incurred	$8,000,943	548.13%
Other underwriting expenses incurred	(4,491,447)	(307.70)
Net underwriting loss	(2,049,819)	(140.43)
Premiums earned	$1,459,677	100.00%

G. Accounts and Records

(i) Drafts Outstanding

The Company reported outstanding checks for claims payments as outstanding drafts in the filed annual statement. This practice is contrary to SSAP No. 2 of the NAIC Accounting Practices and Procedures Manual, which states:

> "A check is payable on demand. A draft must be approved for payment by the issuer. Outstanding checks are accounted as reduction of cash."

It is recommended that the Company report and classify outstanding checks for claims payments as reduction of cash instead of a liability in accordance with SSAP No. 2 NAIC Accounting Practices and Procedures Manual.

(ii) Certified Public Accountant ("CPA") Engagement Letters

The Company hired PricewaterhouseCoopers LLP ("PwC") to render an opinion for the Company's 2004 financial statements. The qualification letter issued by PwC states that the audit workpapers will be retained for no less than five years. Department Regulations 118 and 152 require that workpapers be retained by the auditors for six calendar years from their creation or until after the filing of the report on examination in which the records are subject to review, whichever is longer.

It is recommended that the Company ensure that the contract between the Company and the independent auditors specify the proper workpaper retention period in accordance with the Department Regulations 118 and 152.

(iii) Uncollected Premiums and Agents' Balances in the Course of Collection

The following reconciliation issues were noted for uncollected premiums and agents' balances in the course of collection:

1) Netting Unapplied Cash to Agents' Balances

The Company does not use a suspense account to monitor the unapplied funds. Collections are credited to the agency accounts even if the funds have not been reconciled to the proper policies. According to the Annual Statement Instructions, unapplied cash should be reported as a liability in the Remittances and Items Not Allocated account.

2) Outdated Agents' Balances System

The Company has used the same system to process agents' balances for the past twenty years. Since the Company generates different policy numbers upon policy renewals, the system is deficient in keeping track of the different policy numbers for the same policy.

3) Improper Offset of Overdue Balances

The Company underwrites workers' compensation policies for its clients that are mostly large Japanese corporations that have multiple U.S. subsidiaries. The Company generates the overdue balances by policy using the effective dates from the system. The agency accounting department then manually offsets the overdue balances with credits from other policies, either from the same insureds with multiple policies or from different insureds which are the affiliates of the insureds with the overdue balances.

The Company explained that since the insureds settle their audit and retro premiums on workers' compensation policies in lump sums, the Agency Accounting Department nets the balances for several policy years together. However, the Company could not determine how much of the total offset amount of $32,000 taken as of December 31, 2004 were due to that reason.

These practices are contrary to SSAP No. 6 of the NAIC Accounting Practices and Procedures Manual which specifies that offsets are allowed if on the same underlying policy.

The following recommendations were made based on the findings:

It is recommended that the Company report unapplied cash in the "Remittances and items not allocated" account as a liability in accordance with the Annual Statement Instructions.

It is recommended that the Company update the current agents' balances system or invest in a new system that can properly apply policy numbers upon renewals and track policies and premiums for different policy years correctly.

It is recommended that the Company conduct periodic audits on processing of premiums and agents' balances.

It is recommended that the Company establish clear written guidelines in the following five areas in processing of premiums and agents' balances:

- Billing - If the Company continues to use different policy numbers on renewals, then the new system should have the capability to link all policy numbers for the same policy.
- Collection - The Company should require the Agency Accounting Department to resolve any account discrepancies within a specified time period. The Company should actively work with the agents and brokers to resolve any discrepancies.
- Aging - Aging of premiums and agents' balances should be done in accordance with SSAP No. 6 of the NAIC Accounting Practices and Procedures Manual ("NAIC AP&P"). Offsets are allowed only if the conditions of SSAP No. 6 paragraph 9 are met.
- Write-Off – Write-off of premiums and agents' balances should be done in accordance with SSAP No. 6 of the NAIC AP&P. There should be a clear deadline on policy cancellations and premiums and agents' balances write-offs.
- Reconciliation - The Company should require reconciliation of premiums and agents' balances at least on a quarterly basis. Unresolved balances that are over 90 days due should be non-admitted in accordance with SSAP No. 6 of the NAIC AP&P.

The new guidelines and policies should be clearly communicated to the agency accounting department, the finance department, and the agents and the brokers.

It is recommended that the Company monitor and test implementation of the new guidelines on a periodic basis.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2004 as determined by this examination and as reported by the Company:

	Examination			Company	
Assets	Assets	Assets Not Admitted	Net Admitted Assets	Net Admitted Assets	Surplus Increase (Decrease)
Bonds	$35,074,943	$ 0	$35,074,943	$35,074,943	$0
Cash, cash equivalents and short-term investments	1,319,479	0	1,319,479	1,319,479	0
Investment income due and accrued	437,599	0	437,599	437,599	0
Uncollected premiums and agents' balances in the course of collection	1,348,749	474,023	874,726	874,726	0
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,352,129	36,232	2,315,897	2,315,897	0
Accrued retrospective premiums	1,478,252	147,825	1,330,427	1,330,427	0
Amounts recoverable from reinsurers	14,946	0	14,946	14,946	0
Current federal and foreign income tax recoverable and interest thereon	631,872	0	631,872	631,872	0
Net deferred tax asset	759,839	477,256	282,583	282,583	0
Receivables from parent, subsidiaries and affiliates	537,414	0	537,414	537,414	0
Commission recoverable reserves	158,108	0	158,108	158,108	0
Misc receivable - large deductible	45,842	0	45,842	45,842	0
Total assets	$44,165,716	$1,135,336	$43,030,380	$43,030,380	$0

Liabilities, Surplus and Other Funds Liabilities	Examination	Company	Surplus Increase (Decrease)
Losses	$ 8,281,709	$ 5,981,709	$(2,300,000)
Loss adjustment expenses	2,066,000	2,066,000	0
Commissions payable, contingent commissions and other similar charges	22,041	22,041	0
Other expenses (excluding taxes, licenses and fees)	51,795	51,795	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	119,118	119,118	0
Current federal and foreign income taxes	7,035	7,035	0
Unearned premiums	158,610	158,610	0
Policyholders (dividends declared and unpaid)	64,028	64,028	0
Ceded reinsurance premiums payable (net of ceding commissions)	445,349	445,349	0
Amounts withheld or retained by company for account of others	6,228	6,228	0
Provision for reinsurance	187,980	187,980	0
Drafts outstanding	87,289	87,289	0
Payable to parent, subsidiaries and affiliates	370,817	370,817	0
Other liabilities-EBUB/retro	1,446,440	1,446,440	0
Other liabilities	11,930	11,930	0
Reinsurance reserves write off	52,376	52,376	0
Suspense receipts/misc deposits	8,019	8,019	0
Total liabilities	$13,386,764	11,086,764	$(2,300,000)
Surplus and Other Funds			
Common capital stock	$ 5,000,000	$ 5,000,000	$ 0
Gross paid in and contributed surplus	10,000,000	10,000,000	0
Unassigned funds (surplus)	14,643,616	16,943,616	(2,300,000)
Surplus as regards policyholders	$29,643,616	$31,943,616	$(2,300,000)
Total liabilities, surplus and other funds	$43,030,380	$43,030,380	$ 0

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2001 through 2004. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased by $346,820 during the four-year examination period from January 1, 2001 to December 31, 2004, detailed as follows:

Statement of Income

Premiums earned		$1,459,677
Deductions:		
Losses incurred	$ 4,802,132	
Loss adjustment expenses incurred	3,198,811	
Other underwriting expenses incurred	(4,491,447)	
Total underwriting deductions		3,509,496
Net underwriting gain or (loss)		$(2,049,819)
Investment Income		
Net investment income earned	$ 6,467,604	
Net investment gain or (loss)		6,467,604
Other Income		
Aggregate write-ins for miscellaneous income	$ (54,615)	
Total other income		(54,615)
Net income before dividends to policyholders and before federal and foreign income taxes		$4,363,170
Dividends to policyholders		2,692,317
Net income after dividends to policyholders but before federal and foreign income taxes		$1,670,853
Federal and foreign income taxes incurred		1,311,287
Net income		$ 359,566

C. Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on Examination as of December 31, 2000			$29,296,796
Net income	$359,566		
Change in net deferred income tax	254,358		
Change in nonadmitted assets		$437,418	
Change in provision for reinsurance		144,667	
Cumulative effect of changes in accounting principles	314,981	0	
Total gains and losses	$928,905	$582,085	
Net increase (decrease) in surplus			$ 346,820
Surplus as regards policyholders per report on Examination as of December 31, 2004			$29,643,616

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $10,347,709 is $2,300,000 more than the $8,047,709 reported by the Company in its December 31, 2004 filed annual statement. The examination change is due to adverse development in workers' compensation claims.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

A review of the Company's actuarial report found that it did not fully comply with the requirements of the Annual Statement Instructions issued by the National Association of Insurance Commissioners and Section 5.2 of the Actuarial Standard of Practice No. 9 issued by the Actuarial Standard Board, in that it lacks an executive summary detailing the actuarial analyses in an easy to follow overview format.

The following is an excerpt from Item # 7 of the Actuarial Opinion section of the Annual Statement Instructions:

> " The Actuarial Report should be consistent with the documentation and disclosure requirement of ASOP # 9. The Actuarial Report should contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to company management, the regulator, or other authority the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data, e.g., loss triangles, to the conclusions.
>
> The Report must also include:
>
> - An exhibit which ties to the Annual Statement and compares the Actuary's conclusions to the carried amounts;
> - Summary exhibit(s) of either the actuary's best estimates, range of reasonable estimates, or both, that led to the conclusion in the OPINION paragraph regarding the reasonableness of the provision for all unpaid loss and loss adjustment expense obligations;
> - Documentation of the required reconciliation from the data used for analysis to the Annual Statement Schedule P;
> - Extended comments on trends that indicates the presence or absence of risks and uncertainties that could result in material adverse deviation; and
> - Extended comments on factors that led to unusual IRIS ratios for One-Year Reserve Development to Surplus, Two-Year Reserve Development to Surplus, or Estimated Current Reserve Deficiency to Surplus, and how these factors addressed in prior and current analyses."

It is recommended that the Company include sufficient detail in the narrative and technical components in its actuarial reports for future periods that meet the requirements of the Annual Statement Instructions and Section 5.2 of the Actuarial Standard of Practice No. 9.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

Certain market conduct issues in underwriting and claims were noted. The internal audit reports regarding those issues were forwarded to the Market Conduct Unit of the Department Property Bureau. The Department has scheduled a market conduct review of the Company's underwriting and claims practices.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A	It was recommended that the Company amend the agreements with its custodian to include the protective covenants and provisions deemed by this Department to be representative of good business practices for the contents of such agreements. The Company has complied with this recommendation.	13

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A	Reinsurance	
	i. It is recommended that the Company amend its obligatory master facultative reinsurance agreement to include the proper insolvency clause and submit the agreement to the Department in accordance with Section 1505 of the New York Insurance Law. The Company subsequently submitted an amendment to the contract with the proper insolvency clause to the Department. The Department approved the amendment on May 23, 2006.	9
	ii. It is recommended that the Company amend the 95% quota share reinsurance agreement to include the proper arbitration clause and excess of original policy limits clause and submit the agreement to the Department in accordance with Section 1505 of the New York Insurance Law. The Company subsequently submitted an amendment to the contract with the proper arbitration clause, extra contractual obligations clause and excess of original policy limits clause to the Department. The Department approved the amendment on May 23, 2006.	9
	iii. It is recommended that the Company write off uncollectible reinsurance balances and commuted balances through the accounts in which they were originally recorded in compliance with SSAP No. 62 paragraphs 56 and 60 of the NAIC Accounting Practices and Procedures Manual. The Company has established new procedures for writing off reinsurance recoverable on paid losses, case and IBNR reserves, and ceded balance payable in 2005. The Company also eliminated the balances in the other liability account for the immaterial balances previously written off. The Company has properly recorded the write-off amounts for reinsurance recoverable and payable for the 2005 annual statement.	10
B	Accounts and Records	
	Drafts Outstanding	
	It is recommended that the Company report and classify outstanding checks for claims payments as reduction of cash instead of a liability in accordance with SSAP No. 2 NAIC Accounting Practices and Procedures Manual	14

ITEM	PAGE NO.
Certified Public Accountant (“CPA”) Engagement Letters	
It is recommended that the Company ensure the contract between the Company and the independent auditors specify the proper workpaper retention period in accordance with the Department Regulations 118 and 152.	15
Uncollected Premiums and Agents' Balances in the Course of Collection	
It is recommended that the Company report unapplied cash in the Remittances and Items Not Allocated account as a liability in accordance with the Annual Statement Instructions.	15
It is recommended that the Company update the current agents' balances system or invest in a new system that can properly apply policy numbers upon renewals and track policies and premiums for different policy years correctly.	16
It is recommended that the Company conduct periodic audits on processing of premiums and agents' balances.	16
It is recommended that the Company establish clear written guidelines in the following five areas in processing of premiums and agents' balances:	16

- Billing - If the Company continues to use different policy numbers on renewals, then the new system should have the capability to link all policy numbers for the same policy.

- Collection - The Company should require the Agency Accounting Department to resolve any account discrepancies in a specific time period. The Company should actively work with the agents and brokers to resolve any discrepancies.

- Aging - Aging of premiums and agents’ balances should be done in accordance with SSAP No. 6 of the NAIC Accounting Practices and Procedures Manual ("NAIC AP&P"). Offsets are allowed only if the conditions of SSAP No. 6 paragraph 9 are met.

- Write-Off – Write-off of premiums and agents' balances should be done in accordance with SSAP No. 6 of the NAIC AP&P. There should be a clear deadline on policy cancellations and premiums and agents' balances write-offs.

- Reconciliation - The Company should require reconciliation of

Respectfully submitted,

/S/
Annie Lau, CFE
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

ANNIE LAU, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

/S/
Annie Lau

Subscribed and sworn to before me

this__________ day of ____________________, 2008.

Appointment No *22399*

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Annie Lau

as proper person to examine into the affairs of the

TRANS PACIFIC INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

Company

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 9th day *of* *August, 2005*

HOWARD MILLS
Superintendent of Insurance