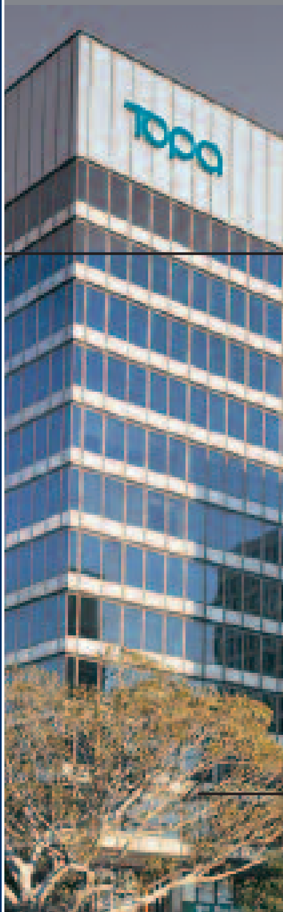


DEFINING SUCCESS

TOPA Insurance Group

ANNUAL REPORT 2008

PEOPLE. PRODUCTS. PROGRAMS. PARTNERSHIPS.

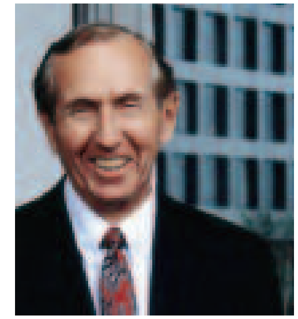
OUR MESSAGE

2008 was unprecedented in more ways than one. Poor investment results, high catastrophe losses, and a persistent soft market took its toll on the property/casualty industry in 2008. The combination of poor investment results and poor underwriting results created the “perfect storm” and tested the industry’s Balance Sheet. What started as a “sub-prime” mortgage problem earlier on in the year, evolved into a broader credit crisis and eventually into a full blown global financial tsunami. Governments and central banks in Europe, Asia and USA stepped in to shore up the Balance Sheets of major banks and financial institutions to prevent a further deepening of the crisis; however, as we neared year end, even these efforts proved questionable with regard to positive results.

Some politicians and experts referred to the financial landscape as the worst since the Great Depression in the 1930s. The global nature of circumstances made it unique and counter measures are continuing to evolve. Banks – always considered a safe haven – have shown vulnerability and consumer confidence has been shaken. The U.S. Government’s intervention in AIG raised questions about the stability of the insurance industry also and shook the financial sector to the core.

It is in the midst of this global financial chaos that we proudly assure our valued policyholders and our business partners that **Topa Insurance Company** and **Dorchester Insurance Company** continue to operate from a position of strength. Many businesses use credit or debt financing to fund their on-going operations. However, we have never had to resort to this. Consequently, our Balance Sheets have been unaffected by the current credit crisis plaguing the global economy. While not totally immune from the vagaries of Wall Street, The Group’s long held commitment to diversification and conservatism has mitigated the inevitable impact. We recognized losses on our investment portfolio through the end of 2008 and recorded a 10% reduction in GAAP equity. It is impossible to state that all the bad news is behind us, but we can assure our policyholders and business partners that we will continue to be pro-active in maintaining a strong and conservative Balance Sheet. This, with our geographic expansion plans, our proven underwriting approach, and our unwavering commitment to superior customer service, will allow us to weather the current soft market as well as an uncertain investment climate. When the market turns—as it inevitably must—we will be prepared to grow with confidence.

As a Group, whether in relation to our insurance companies, **Topa Insurance Company** and **Dorchester Insurance Company**, both **rated A-VII (Excellent) by AM BEST**, or our expanded operations in the United States and United States Virgin Islands, it is the unparalleled professionalism and teamwork of all our employees, the total commitment of our corporate parent, **Topa Equities Ltd.**, a privately held, diversified, conglomerate, accompanied by the confidence and loyalty of our producers and the long term partnerships with our reinsurers that allow us to remain positive about our growth and profitability going forward. Our commitment and dedication, as set forth in our Group’s Mission Statement, makes **Topa Insurance Group** and its family of insurance operations a strong, stable and dependable market of choice.



John E. Anderson
CHAIRMAN OF THE BOARD

Noshirwan Marfatia
PRESIDENT AND CEO

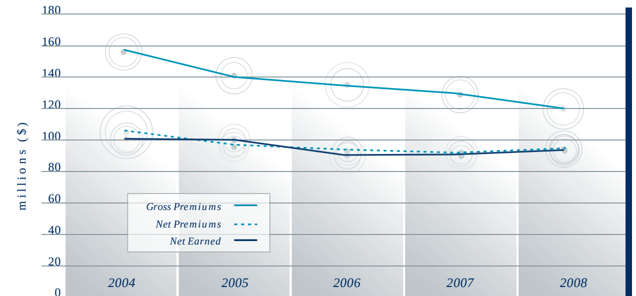
At Topa Insurance Group, we provide quality insurance products for the protection of our customers and policyholders through successful business relationships and superior customer service.

Daniel Sherrin
CFO

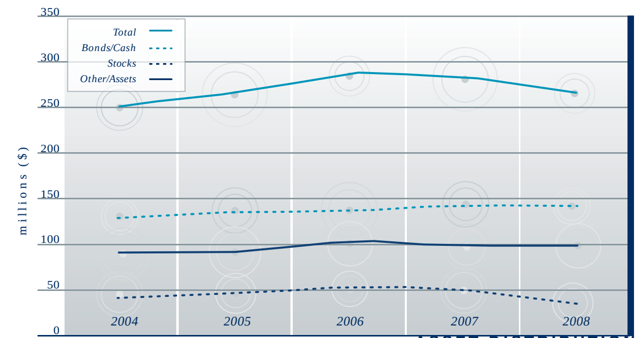
The operational plans and risk tolerances of the insurance industry at every level were tested in 2008 with never before seen declines in securities valuation as the soft market continued throughout the year. Undeterred amidst increased pressure on rates, aggressive expansion of coverages, and a shrinking market place, Topa Insurance Group's commitment to responsible and profitable underwriting was unwavering, resulting in a decline in revenue of 7%. With that decline in revenue, came a decline in total exposures insured and policy count as the Group held fast to its superior underwriting standards and rates in the face of the ever diminishing standards of its competitors.

Cash flow from operations remained positive, allowing the Group to continue to invest in its operational infrastructure in preparation for the future market turn and to maintain the high quality of its investment portfolio. As such, Topa Insurance Group's investment portfolio remains invested in high quality securities with over 97% invested in A rated securities or higher. Maintaining our core conservative operational philosophy also allowed the Group to report a return on equity of 6% in 2008. The 10% decline in GAAP was a small reflection of the much greater 31% decline experienced in the general securities market in 2008. Statutory surplus affected by the decline in the markets finished the year at $61.2 million. Net after tax income before capital gains saw an increase of 43% over the prior year, but was offset by the decline in capital gains realized during the year, resulting in a total after tax net income decline of 34%.

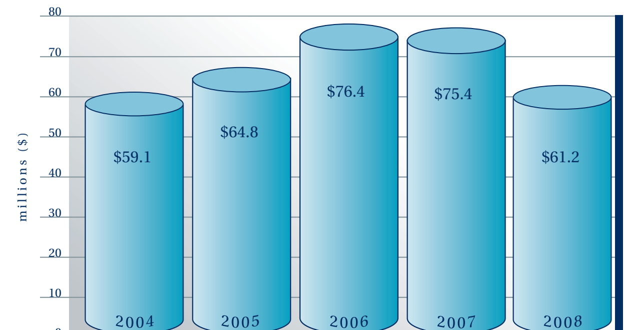
The reoccurring wildfires in California placed pressure on our operational results in 2008, adding 0.5% to the combined ratio, yet demonstrated the strength in our underwriting guidelines and risk management where catastrophic events had only modest income impact. Positive loss development on earlier accident years, in addition to the well practiced discipline in controlling operating expenses, resulted in a combined ratio of 102.3% compared to 102.0% in the prior year on a declining premium base. Our conservative loss reserving practices continues to maintain an IBNR redundancy level in our target range of 7% - 12% of surplus.



PREMIUM GROWTH



ASSET DISTRIBUTION



STATUTORY SURPLUS

BOARD OF DIRECTORS

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and Treasurer

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Assistant Vice President, C.I.O.

Rodger Patterson
Assistant Vice President

Theodore Budlong
Assistant Vice President

William Robinson
Assistant Vice President

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Auditors
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Glendale, CA

Bankers
Mellon, First Business Bank
Los Angeles, CA

Consulting Actuaries
Milliman USA, Inc.
Pasadena, CA

Investment Services
Kayne Anderson Rudnick
Investment Management, LLC
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