REPORT OF EXAMINATION
OF THE

CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2003

Participating State
and Zone:

California

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San Francisco, California
September 17, 2004

Honorable Alfred W. Gross
Chairman, NAIC Financial
Condition (EX4) Subcommittee
Virginia Bureau of Insurance
Richmond, Virginia

Honorable John Morrison
Secretary, Zone IV-Western
Commissioner of Insurance and Securities
Montana Department of Insurance
Helena, Montana

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, an examination was made of the

CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office, located at 1900 Alameda de las Pulgas, San Mateo, California 94403.

SCOPE OF EXAMINATION

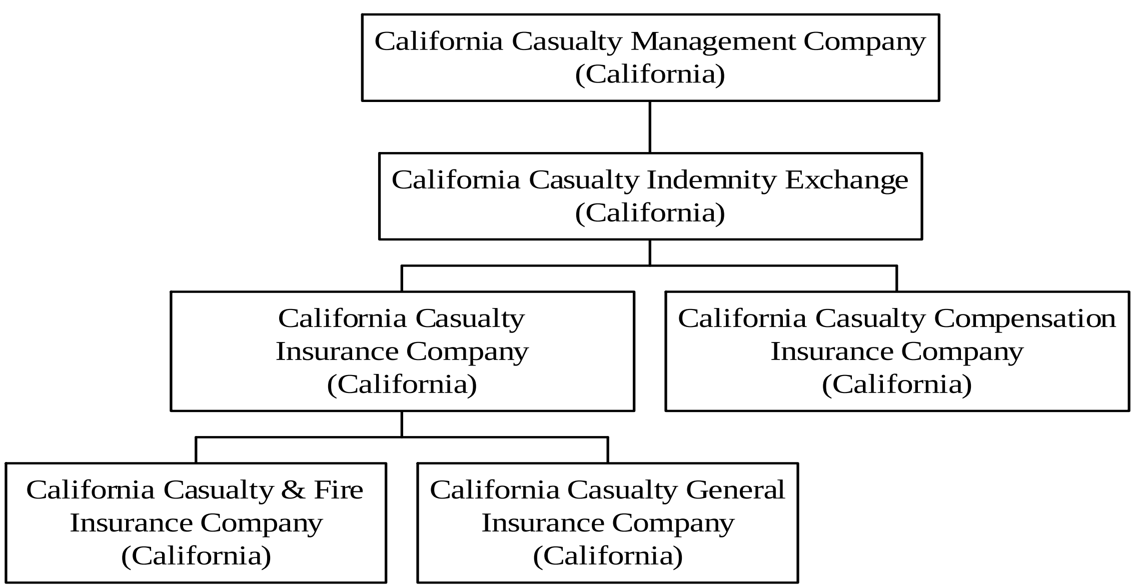
The previous examination of the Company was made as of December 31, 1998. This examination covers the period from January 1, 1999 through December 31, 2003. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2003, as deemed necessary under the circumstances. The examination was conducted concurrently with the Company's parent, California Casualty Insurance Company, its parent, California Casualty Indemnity Exchange, and two affiliates, California Casualty & Fire Insurance Company and California Casualty Compensation

Insurance. These insurers are collectively referred to as the California Casualty Group (Group) hereinafter. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination.

In addition to those items specifically commented upon in this report, other phases of the Exchange's operations were reviewed including the following areas that require no further comment: company history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which the California Casualty Management Company (CCMC), as the attorney-in-fact for the California Casualty Indemnity Exchange (CCIE), controls the Company. As of December 31, 2003, Thomas Runnels Brown owned or controlled 43.2% of the Class A voting common stock of CCMC. The following is an abridged organizational chart showing the relationship of the Company in the holding company system:



One additional reported company in the holding company system was Pillar Point Capital Management, Inc. (PPCM). PPCM is a wholly-owned subsidiaries of CCMC.

On July 14, 2004, the Group filed an amendment to Form B indicating Thomas Runnels Brown is the Ultimate Controlling Person in the holding company system, and also added Pillar Point Equity Management, LLC (PPEM) to the holding company system. PPCM holds a 49% interest in PPEM. The remaining 51% is held by AFM, LLC, which itself is owned by two individuals who are former employees of PPCM. Further comments are included in “Inter-Company Agreements” under this heading.

The board of directors manages the business and affairs of the Company. Following are members of the board of directors and the principal officers of the Company serving at December 31, 2003:

Directors

Name and Residence	Principal Business Affiliation
David Allen Aaker Orinda, California	Retired Professor University of California (Berkeley)
Jon Howell Hamm El Dorado Hills, California	Executive Manager, California Association of Highway Patrolmen
George Goodrich Coale Parker Portola Valley, California	Distinguished Professor of Finance Graduate School of Business Stanford University
Suzanne Marie Zimmer Golden, Colorado	Assistant Executive Director Colorado Education Association
James David Altman Menlo Park, California	Retired Johnson & Higgins of California
John Edward Cahill, Jr. Kentfield, California	Chairman and Chief Executive Officer Cahill Contractors, Inc.
Richard Wayne Johnson Fullerton, California	Retired California Teachers Association

Directors (continued)

Name and Residence	Principal Business Affiliation
Edward Garland Phoebus III Silver Spring, Maryland	Vice President National Education Association's Member Benefits Corporation
William Rynol Dahlman North Hollywood, California	President and Chief Executive Officer Employers Group
R. Kirk Lindsey Modesto, California	President Brite Transport System, Inc.
Lynne Francine Siegel Portland, Oregon	Retired Oregon Education Association
Jonathan Archer Brown Fair Oaks, California	President Association of Independent Colleges and Universities
Wayne Shawn Diviney Fairfax, Virginia	Assistant Executive Director National Education Association
Ronald Gilbert McPeck Redlands, California	Retired California Teachers Association
Ralph Matthew Tornatore, Jr. Cool, California	Retired, California Association of Highway Patrolmen

Principal Officers

Name	Title
George Goodrich Coale Parker	Chairman of the Board
Kai Grant Edwin Anderson	President
James Michael Sevey	Secretary
John George Vidosh	Treasurer

Intercompany Agreements

The Company is managed by CCMC under a management agreement effective January 1, 1994. Under the agreement, CCMC has the power to conduct, control and supervise the complete insurance activities of the Company. As compensation for the services performed, CCMC is paid a monthly fee of up to 125% of expenses incurred on behalf of the Company. In addition, the Company pays CCMC an annual incentive fee not to exceed 10% of the Group's calendar year pre-tax income. Pursuant to California Insurance Code Section 1215.5, this agreement was submitted to the California Department of Insurance and approved.

Effective January 1, 1999, the Company entered into an amended tax allocation agreement with the other insurers in the Group. Under this agreement, the consolidated federal income tax liability of the Group is allocated to each company in proportion to each company's share of taxable income, computed on a separate company basis. CCIE is responsible for filing and making all tax payments on behalf of the Group.

Effective July 1, 1999, the Company entered into an investment advisory agreement with Pillar Point Capital Management, Inc. (PPCM), a wholly-owned subsidiary of CCMC. Under this agreement, PPCM supervises and directs the Company's investments and makes all investment decisions subject to approved investment guidelines. PPCM's fee is based on a percentage of assets under management. On June 24, 2002, the agreement was extended through June 30, 2005.

PPCM will cease being a registered investment advisor on September 30, 2004. Its fixed income management function will be rolled up into CCMC under the control of the aforementioned management agreement.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance in the states of Arizona, California, Idaho, Illinois, Iowa, Kansas, Kentucky, Missouri, Nebraska, Nevada, New Mexico, Ohio, Oregon, Utah, Washington, Wisconsin, and Wyoming. During the period under review, there were no changes in the states in which the Company is licensed.

In May 2000, the California Casualty Group (Group) received an endorsement as the recommended insurer for members of the National Education Association (NEA). The endorsement is for a ten-year period. In connection with the anticipated premium growth related to this endorsement, the Company's manager, California Casualty Management Company (CCMC) entered into a strategic relationship with Fireman's Fund Insurance Company (FFIC) to share in the business generated through the NEA endorsement. One of the components of this relationship is a quota-share reinsurance agreement between insurers in the Group and FFIC, where FFIC assumes 20% of the personal lines business written by the group, including but not limited to fire, allied lines, earthquake, homeowner's, mobile homeowner's, inland marine, personal watercraft, and personal automobile policies. See "REINSURANCE" for further commentary.

The Company has not written any significant amount of direct business since 1999. California Casualty Indemnity Exchange (CCIE), has taken over a greater share of Group direct business written in the states where the Company is licensed.

On November 5, 2003, the California Department of Insurance consented to a redomestication of the Company to the State of Oregon, and a name change of the Company to California Casualty General Insurance Company of Oregon. The Oregon Insurance Division has indicated to the Company that they will complete the redomestication after the conclusion of this examination.

On October 1, 1997, the Group discontinued writing new commercial workers' compensation policies. Under a pooling agreement, effective January 1, 1998, all of the workers' compensation and miscellaneous commercial business in run-off was retroceded to California Casualty Compensation Insurance Company. Personal lines of business, effective that date, were retroceded to California Casualty Insurance Company, California Casualty & Fire Insurance Company and the Company, with CCIE retaining a share, based on a revised pooling percentage. See "REINSURANCE" for further commentary.

The manager of the insurance operations of the Company, CCMC, provides services for the Company under the management agreement. CCMC has approximately 950 employees, many of whom perform services for the Company in accordance with a management agreement. CCMC conducts operations from its home office in San Mateo, California and three service centers in providing comprehensive claims, underwriting, marketing, sales and administrative services. CCMC provides production and operating facilities pursuant to the provisions of the management agreement.

The Group is a highly specialized personal lines insurer that provides private passenger automobile and homeowners insurance to members of affinity groups primarily involved in education, law enforcement and public safety. Personal lines business is produced directly through licensed insurance agents, who are employees of CCMC. The agents receive salary (no commissions are paid) and are entitled to a bonus if the number of policies sold exceeds a given threshold.

REINSURANCE

Pooling Agreement

A pooling arrangement was approved by the California Department of Insurance (CDI) effective January 1, 1998. This amended arrangement provides that all companies cede 100% of their direct business to the California Casualty Indemnity Exchange (CCIE). Per the current arrangement, personal lines insurance business is retroceded to and assumed by California Casualty Insurance Company (CCIC), California Casualty & Fire Insurance Company (CCFIC) and the Company according to their respective pooling percentages of 22%, 11% and 16%. CCIE retains 51% of the pooled personal lines business. All workers' compensation and miscellaneous commercial lines direct and assumed business is in run-off and is retroceded 100% to CCCIC.

Assumed

The Company has no reinsurance assumed.

Ceded

Effective January 1, 2000, CCIE, CCIC, CCFIC, and the Company (the Group) entered into a 15-year quota-share reinsurance agreement with Fireman's Fund Insurance Company (FFIC). For the first five years of the agreement, the Group cedes 20% of all personal lines premium written and losses paid, and earn a ceding commission equal to 20% of underwriting expenses. For the subsequent ten years of the treaty, the Group cedes 30% of written premiums and losses and earn a ceding commission equal to 30% of underwriting expenses. Under the terms of the agreement, the Group also received an additional ceding commission through 2003. The additional commission was 7.5% in 2000, 5.0% in 2001, 2.5% in 2002 and $37,500 per month in 2003. The Group is recognizing the additional ceding commission over the first ten years of the contract per SSAP No.62, paragraph 51, because that is the term of the endorsement by the NEA. See "Territory and Plan of Operation".

The insolvency clause in the FFIC quota-share agreement contains language that deviates from that specified in California Insurance Code (CIC) Section 922.2(a) (2). The arbitration clause contains language that allows the panel to settle disputes on an equitable, rather than strictly legal, basis. Treaty language that does not require the panel to strictly enforce the insolvency clause is not acceptable to the CDI. The agreement allows for cancellation by either party in the event either party is placed in receivership, conservatorship, liquidation or trust. SSAP No. 62, paragraph 7, prohibits early termination of a reinsurance agreement based on an order of rehabilitation or liquidation. Management of the Company has stated that they are working with FFIC to amend the sections of this agreement that are not in compliance with the CIC and SSAP 62.

The Company had the following additional reinsurance agreements in effect at December 31, 2003:

Type of Contract	Line of Business	Reinsurer's Name	Company's Retention	Reinsurer's Limits
Catastrophe Excess of Loss				
1st Layer excess of Loss	Property	Various Admitted and Non-Admitted Reinsurers	$10 million + 40% of $10 million in excess of $10 million per occurrence	60% of $10 million per occurrence in excess of $10 million, $20 million annual aggregate

Type of Contract	Line of Business	Reinsurer's Name	Company's Retention	Reinsurer's Limits
2nd Layer Excess of Loss	Property	Various Admitted and Non-Admitted Reinsurers	$20 million + 25% of $20 million in excess of $20 million per occurrence	75% of $20 millionper occurrence in excess of $20 million, $40 million annual aggregate
3rd Layer Excess of Loss	Property	Various Admitted and Non-Admitted Reinsurers	$40 million + 5% of $35 million in excess of $40 million per occurrence	95% of $35 million per occurrence in excess of $40 million, $70 million annual aggregate

As previously noted, the Group discontinued writing workers' compensation business in 1997, except for domestic workers' compensation coverage under homeowner's policies. Under the new pooling agreement, effective January 1, 1998, all workers' compensation and miscellaneous commercial business in force was retroceded to California Casualty Compensation Insurance Company (CCCIC). Effective January 1, 2001, CCCIC entered into an adverse loss development cover with XL Re, Ltd., of Hamilton, Bermuda, covering workers' compensation claims with dates of injury prior to January 1, 1999. The following excess of loss agreements inure to the benefit of the adverse development cover between CCCIC and XL Re, Ltd.

Type of Contract	Line of Business	Reinsurer's Name	Company's Retention	Reinsurer's Limits
Excess of loss				
1st Layer excess of loss	Workers' Compensation	American Re-Insurance Company	$400,000 per occurrence	$600,000 per occurrence in excess of $400,000 Cancelled 1/1/99
2nd Layer excess of loss	Workers' Compensation	American Re-Insurance Company	$1 million per occurrence	$1 million per occurrence in excess of $1 million Cancelled 1/1/99
3rd Layer excess of loss	Workers' Compensation	American Re-Insurance Company	$2 million per occurrence	$3 million per occurrence in excess of $2 million, $6 million annual aggregate Cancelled 1/1/99
4th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	American Re-Insurance Company	$5 million per occurrence	$5 million per occurrence in excess of $5 million, $10 million annual aggregate Cancelled 1/1/99

Type of Contract	Line of Business	Reinsurer's Name	Company's Retention	Reinsurer's Limits
5th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	American Re-Insurance Company	$10 million per occurrence	$5 million per occurrence in excess of $10 million, $10 million annual aggregate Cancelled 1/1/99
6th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	American Re-Insurance Company	$15 million per occurrence	$15 million per occurrence in excess of $15 million, $30 millionm annual aggregate Cancelled 1/1/99
7th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	Various Admitted and Non-Admitted Reinsurers	$30 million per occurrence	$25 million per occurrence in excess of $30 million, Cancelled 10 /1/98
8th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	Various Admitted and Non-Admitted Reinsurers	$55 million per occurrence	$25 million per occurrence in excess of $55 million, Cancelled 10/1/98
9th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	Various Admitted and Non-Admitted Reinsurers	$80 million per occurrence	$40 million per occurrence in excess of $80 million, Cancelled 10/1/98
10th Layer excess of loss covering multiple person occurrences only	Workers' Compensation	Various Admitted and Non-Admitted Reinsurers	$120 million per occurrence	$40 million per occurrence in excess of $120 million Cancelled 10/1/98
1st Person Excess	Workers' Compensation	American Re-Insurance Company	$5 million per occurrence	$2.5 million per occurrence in excess of $5 million, $10 million annual aggregate Cancelled 10/1/98
2nd Person Excess	Workers' Compensation	Various Admitted Reinsurers	$7.5 million per occurrence	$2.5 million per occurrence in excess of $7.5 million, $20 million annual aggregate Cancelled 10/1/98
3rd Person Excess	Workers' Compensation	Reliastar Life Insurance Company	$10 million per occurrence	$5 million per occurrence in excess of $10 million, $20 million annual aggregate Cancelled 10/1/98

Type of Contract	Line of Business	Reinsurer's Name	Company's Retention	Reinsurer's Limits
Occupational Disease	Workers' Compensation	American Re-Insurance Company	$1 million per occurrence	$2 million per occurrence in excess of $1 million, $12 million aggregate Cancelled 10/1/98

ACCOUNTS AND RECORDS

Information System Controls

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of the review, some weaknesses in controls were noted in the areas of user access and audit policy.

The weaknesses noted were presented to the Company along with recommendations to strengthen its controls. The Company concurred with the majority of the findings and recommendations, and has made or will make appropriate changes.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2003

Underwriting and Investment Exhibit for the Year Ended December 31, 2003

Reconciliation of Surplus as Regards Policyholders
from December 31, 1998 through December 31, 2003

Statement of Financial Condition
as of December 31, 2003

Assets	Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 40,469,592	$	$ 40,469,592	
Cash and short-term investments	8,367 867		8,367,867	
Investment income due and accrued	372,476		372,476	
Uncollected premiums in course of collection	2,732,229	14,055	2,718,174	
Premiums and agents' balances booked but deferred and not yet due	17,540,874		17,540,874	
Amounts recoverable from reinsurer	881,893		881,893	
Net deferred tax asset	4,148,964	4,148,964	0	
Guaranty funds receivable or on deposit	6,324		6,324	
Aggregate write-ins for other than invested assets	68,584	68,584	0	
Total assets	$74,588,803	$4,231,603	$70,357,200	

Liabilities, Surplus and Other Funds

Losses		$ 14,703,742	(1)
Loss adjustment expenses		2,860,968	(1)
Commissions payable, contingent commissions and other similar charges		793,261	
Other expenses		411,894	
Taxes, licenses and fees		213,337	
Unearned premiums		21,299,833	
Ceded reinsurance premiums payable		544,257	
Amounts withheld or retained by Company for account of others		433,925	
Payable to parent, subsidiaries and affiliates		3,223,430	(2)
Aggregate write-ins for liabilities		55,806	
Total liabilities		44,540,453	
Common capital stock	$ 2,602,000		
Gross paid-in and contributed surplus	12,200,000		
Unassigned funds (surplus)	11,014,747		
Surplus as regards policyholders		25,816,747	
Total liabilities, surplus and other funds		$70,357,200	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2003

Statement of Income

Premiums earned		$38,910,095
Deductions:		
Losses incurred	$27,061,731	
Loss expenses incurred	7,643,575	
Other underwriting expenses incurred	12,379,038	
Total underwriting deductions		47,084,344
Net underwriting loss		(8,174,249)
Investment Income		
Net investment income earned	$ 2,289,955	
Net realized capital losses	(62,028)	
Net investment gain		2,227,927
Other Income		
Net loss from agents' or premium balances charged off	$ (126,656)	
Finance and service charges not included in premiums	129,228	
Total other income		2,572
Net loss before federal and foreign income taxes		(5,943,750)
Federal and foreign income taxes incurred		(161,865)
Net loss		$(5,781,885)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2002		$31,627,703
Net loss	$(5,781,885)	
Change in net deferred income tax	1,924,960	
Change in nonadmitted assets	(1,954,031)	
Change in surplus as regards policyholders for the year		(5,810,956)
Surplus as regards policyholders December 31, 2003		$25,816,747

Reconciliation of Surplus as Regards Policyholders
from December 31, 1998 through December 31, 2003

Surplus as regards policyholders, December 31, 1998, per Examination			$37,844,174
	Gain in Surplus	Loss in Surplus	
Net loss	$	$ 11,554,510	
Change in net deferred income tax	2,666,131		
Change in nonadmitted assets		4,042,106	
Cumulative effect of changes in accounting principles	903,058		
Capital changes: Transferred from surplus	100,000		
Surplus adjustments: Transferred to capital		100,000	
Total gains and losses	$3,669,189	$15,696,616	
Decrease in surplus as regards policyholders			(12,027,427)
Surplus as regards policyholders, December 31, 2003, per Examination			$25,816,747

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The California Department of Insurance (CDI), pursuant to California Insurance Code (CIC) Section 733(g), retained an independent actuary for the purpose of providing a full actuarial evaluation of the Company's loss and loss adjustment expense reserves as of December 31, 2003. A Casualty Actuary with the CDI reviewed the analysis and concurred with the conclusion of the consulting actuary that the reserves for losses and loss adjustment expenses are reasonable.

(2) Payable to Parent, Subsidiaries and Affiliates

Since the late 1980's, the Company has included pooling amounts in its inter-company balances. This is not in compliance with Annual Statement instructions. Management has stated that it would require extensive re-programming to separate the pooling amounts into their individual asset and liability components. Consequently, pooling entries in Schedule F are not accurate. Because there is no effect on surplus, and the Company is not presently able to calculate the asset and liability components included in the inter-company balances, no changes were made to the financial statement of this Report of Examination. It is recommended that the Company properly report pooled accounts and inter-company balances in accordance with Annual Statement instructions.

The inter-company pooling agreement calls for prompt settlements of balances. Pooling balances, along with regular inter-company balances due from 2002, were substantially settled during the first and second quarter 2004. It is recommended that these accounts be settled on a regular basis. Management has indicated that this is their intent.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Reinsurance – Ceded. (Page 8). The Company should complete its negotiations with Fireman's Fund Insurance Company so that the quota share reinsurance agreement between the companies complies with California Insurance Code Section 922.2(a) (2) and SSAP No. 62, paragraph 7.

Accounts and Records - Information System Controls. (Page 11): The Company should evaluate the recommendations made and make appropriate changes to strengthen controls over its information system.

Payable to Parent, Subsidiaries and Affiliates – Page (15): The Company should properly report pooled accounts and inter-company balances in accordance with Annual Statement instructions, and settle them on a regular basis.

Previous Report of Examination

Accounts and Records - Information System Controls. (Page 9). The Company should evaluate the recommendations made and make appropriate changes to strengthen controls over its information system. The recommendations from the previous examination have been substantially implemented.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

August J. Plozizka, CFE
Examiner-In-Charge
Department of Insurance
State of California