REPORT OF EXAMINATION
OF THE

FIRST AMERICAN PROPERTY &
CASUALTY INSURANCE COMPANY

AS OF
DECEMBER 31, 2003

Participating State
and Zone:

California

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Los Angeles, California
April 20, 2005

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
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

FIRST AMERICAN PROPERTY & CASUALTY INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 114 East Fifth Street, Santa Ana, California 92701.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2003. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. 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.

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; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

SUBSEQUENT EVENT

As of the examination report date, the series of Florida hurricanes during 2004, after ceded reinsurance arrangements, resulted in an estimated $7.5 million of net losses to the Company.

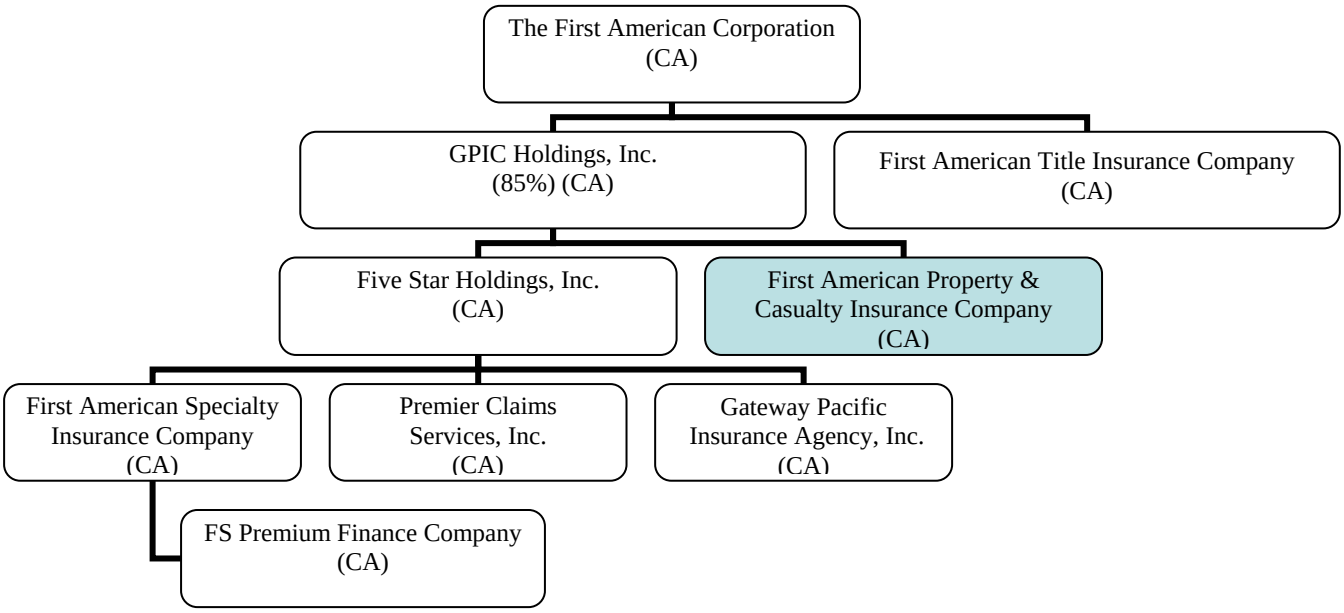
COMPANY HISTORY

The Company, formerly known as Great Pacific Insurance Company (GPIC), was incorporated under the laws of the State of California on October 17, 1977, and commenced business on September 27, 1979. On August 30, 2000, GPIC changed its name to First American Property & Casualty Insurance Company subsequent to the acquisition of its parent company, GPIC Holdings, Inc., by First American Corporation in May 1999.

During 2002 and 2003, the Company received the cash contributions from its parent of $7 million and $ .8 million, respectively.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of GPIC Holdings, Inc., a California corporation. GPIC Holdings, Inc. is 85% owned by the First American Corporation. Of the remaining 15%, no one owner holds more than 10% of the outstanding stock. The following abridged organizational chart depicts the Company's relationship within the holding company system:



(*) all ownership is 100% unless otherwise noted.

Management of the Company is vested in a six-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2003 follows:

Directors

Name and Residence	Principal Business Affiliation
George M. McNamee Corona Del Mar, California	Chairman of the Board First American Property & Casualty and First American Specialty Insurance Companies
Dirk R. McNamee Corona Del Mar, California	President First American Property & Casualty and First American Specialty Insurance Companies
George J. Grupp Mission Viejo, California	Executive Vice President, Chief Financial Officer First American Property & Casualty and First American Specialty Insurance Companies

Name and Residence	Principal Business Affiliation
Parker S. Kennedy Orange, California	Executive Vice President The First American Corporation
Craig I. Deroy Rolling Hills Estates, California	Senior Executive Vice President and General Counsel The First American Corporation
Kathleen M. Collins Long Beach, California	Vice President, General Counsel and Secretary The First American Corporation

Principal Officers

Name	Title
George M. McNamee	Chairman
Dirk R. McNamee	President
George J. Grupp	Executive Vice President, Chief Financial Officer and Treasurer
Kathleen M. Collins	Vice President, General Counsel and Secretary
Parker S. Kennedy	Executive Vice President
Kelly Dunn	Vice President, Chief Operating Officer

Management Agreements

Management Services Agreement: The Company and its affiliates are parties to a Management Services Agreement. First American Title Insurance Company (FATIC) provides various administrative services for the Company and its affiliates. The Company and its affiliates reimburse FATIC for the actual cost of these services. The agreement has been in-force since January 1, 2002. The agreement was approved by the California Department of Insurance on September 3, 2003.

Tax Allocation Agreement: The Company and its affiliates are parties to a tax allocation agreement dated December 15, 1994 with its ultimate parent, First American Financial Corporation (FAF). FAF files consolidated federal income tax returns and pays estimated consolidated federal income taxes due. Each member pays to FAF its estimated separate federal income tax liability. The allocation of federal income tax liability is based on the percentage that the separate federal tax liability bears to

the sum of the tax liabilities for all members. The members of the group that have incurred losses or other tax benefits that have been utilized by the group to reduce consolidated federal tax liability are compensated for the use of benefits. Any excess of the amount paid over the allocated liability shall be paid back by FAF within ninety days after the due date, including extensions of the consolidated federal return.

Managing General Agency Agreement: The Company entered into an agency agreement with an affiliate Gateway Pacific Insurance Agency, Inc. (Gateway) on January 1, 2001. Under this agreement, Gateway underwrites on behalf of the Company and is liable for the payment of all premiums, whether collected or not, the net amount due on all business after deducting commissions. The Company pays Gateway a 20% commission on all lines written by Gateway.

Managing General Agency Agreement: The Company entered into a managing general agency agreement along with claims handling agreement with Mobile Homeowners Insurance Agencies, Inc. (MHIA) in April 2002. Under these agreements, MHIA underwrites homeowner insurance business in Florida on behalf of the Company. MHIA remits to the Company the gross written premium, whether collected or not, net of the commission due each month. MHIA also handles all claims arising out of the homeowners insurance policies issued on behalf of the Company.

Holding Company Transactions

The Company has a practice of reimbursing First American Specialty Insurance Company (FASIC) for administrative and other overhead expenses incurred by FASIC on behalf of the Company. The Company reported these cost allocations in its 2003 Form B filing. However, the Company does not have an underlying cost-sharing agreement with FASIC to address the allocation method and percentage. It's recommended that the Company enter a cost-sharing agreement with FASIC to comply with California Insurance Code Section 1215.5(b) (4).

TERRITORY AND PLAN OF OPERATION

As of December 31, 2003, the Company was licensed to transact multiple lines of property and casualty insurance in all states and the District of Columbia. In 2003, the Company wrote $33.9 million of direct premiums. Of the direct premiums written, 37% or $12.4 million was written in Florida, $12.3 million (37%) was written in California, $ 7.9 million (24%) was written in Arizona and $1.2 million (2%) was written in the remaining states. The Company is also authorized to write on a surplus line basis in the State of Texas. The principal line of business written is homeowners multiple peril, which amounted to approximately 96% of the Company's total premiums written.

The Company's business is written through approximately six general agents and eighty-one independent brokers. The Company writes in Florida through managing general agent, Mobile Homeowners Insurance Agencies, Inc.

REINSURANCE

Assumed

The Company assumed 49% of all lines of business from its affiliate, First American Specialty Insurance Company (FASIC).

Ceded

The following is a summary of the principal ceded reinsurance treaties in-force as of December 31, 2003. Reinsurers with less than 10% participation have been accumulated and listed in aggregate.

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Quota Share	General Cologne Reinsurance Corporation	55%	Property: 45% of $500,000 each risk Liability: 45% of $500,000 each occurrence
Quota Share (Homeowner business in Florida only)	Philadelphia Indemnity Insurance Company	50%	
Excess of Loss	General Reinsurance Corporation	Property: $500,000 per risk	Property: $500,000 xs $500,000, and $1million xs $500,000 per risk
		Liability: $500,000 per occurrence	Liability: $500,000 xs $500,000, and $1million xs $500,000 per occurrence
Excess Catastrophe	American Reinsurance Company Continental Casualty Company Converium Reinsurance Inc. Everest Reinsurance Company Platinum Underwriters Reinsurance Inc. Lloyd's Syndicates Other Various Reinsurers	$5 million per occurrence	1st Cat: $5 million xs 5 million 2st Cat: $10 million xs 10 million 3st Cat: $20 million xs 20 million 4st Cat: $20 million xs 40 million

As of December 31, 2003, reinsurance recoverables, for all ceded reinsurance totaled $15.9 million or 63% of surplus as regards policyholders. Among the ceded reinsurance recoverables, $15.1 million were from authorized reinsurers, and $0.8 million were from unauthorized reinsurers.

Provision for Reinsurance

It was noted that the Company used the letters of credit issued to its affiliate, First American Specialty Insurance Company (FASIC), to secure reinsurance recoverable. The letters of credit only listed FASIC as beneficiary, and did not include the Company as beneficiary. California Department of Insurance Bulletin 97-5 requires that the credit for reinsurance is only allowed the beneficiary of

the letter of credit. It is recommended that the Company obtain new letters of credit to include the Company as beneficiary in the future. In addition, the Company calculated its provision for reinsurance on a combined basis with FASIC and recorded the total of provision for reinsurance in FASIC's book. It is recommended that the Company record its provision for reinsurance separately from FASIC.

ACCOUNTS AND RECORDS

During the examination of the account, agents' balances in the course of collection, it was noted that the Company did not provide the underlying policy level detail in an aged format to support the reported balance. The Company has a managing general agency agreement with its affiliated general agent, Gateway Pacific Insurance Agency, Inc.(Gateway) stipulating that Gateway remits to the Company, after the end of each month, the net amount due on all business written after deducting its commission, whether collected or not. The NAIC Statement of Statutory Accounting Principles No. 6 states that the aging of the premiums is governed by the effective date of the underlying insurance contract and not the agent and the Company contractual relationship. It is recommended that the Company provide the policy level aging detail for examinations in the future. It is recommended that the Company establish the proper aging procedures for each of the detailed policy inventory of agents' balances. It is also recommended that the Company maintain a complete audit trail from the annual statement to individual detailed records to facilitate the examination.

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, 2000 through December 31, 2003

Statement of Financial Condition
as of December 31, 2003

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 58,985,544	$	$ 58,985,544	
Stocks:				
Preferred stocks	2,672,844		2,672,844	
Common stocks	8,295,996		8,295,996	
Cash and short-term investments	5,584,419		5,584,419	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	2,638,277		2,638,277	
Reinsurance recoverable on loss payments	1,678,741		1,678,741	
Electronic data processing equipment	1,184,151	541,140	643,011	
Interest and dividend income due and accrued	970,894		970,894	
Receivable from parent, subsidiaries and affiliates	53,073		53,073	
Aggregate write-ins for other than invested assets	1,072,695	431,856	640,840	(1)
Total assets	$ 83,136,634	$ 972,996	$ 82,163,639	
Liabilities, Surplus and Other Funds				
Losses			$ 9,567,340	(2)
Reinsurance payable on paid loss and loss adjust expenses			12,841,013	
Loss adjustment expenses			2,928,624	(2)
Commissions payable, contingent commissions and other other similar charges			7,590	
Other expenses			(31,596)	
Taxes, licenses and fees			601,284	
Federal and foreign income taxes			349,482	
Net deferred tax liability			841,493	(3)
Unearned premiums			21,016,211	
Ceded reinsurance premiums payable			6,238,424	
Amounts withheld or retained by company for account of of others			144,303	
Drafts outstanding			1,027,710	
Payable to parent, subsidiaries and affiliates			1,479,358	
Total liabilities			57,011,236	
Common capital stock		$ 5,000,000		
Gross paid-in and contributed surplus		17,190,000		
Unassigned funds (surplus)		2,962,402		
Surplus as regards policyholders			25,152,402	
Total liabilities, surplus and other funds			$ 82,163,639	

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

Statement of Income

Underwriting Income		
Premiums earned		$ 53,538,360
Deductions:		
Losses incurred	$ 30,900,971	
Loss expense incurred	4,705,548	
Other underwriting expenses incurred	19,218,228	
Total underwriting deductions		54,824,747
Net underwriting loss		(1,286,387)
Investment Income		
Net investment income earned	$ 2,400,822	
Net realized capital gains	(40,372)	
Net investment gain		2,360,450
Other Income		
Finance and service charges not included in premiums	$ 17,019	
Total other income		17,019
Net income before federal income taxes		1,091,082
Federal income taxes incurred		(29,008)
Net income		$ 1,120,090

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2002		$ 22,858,702
Net income	$ 1,120,090	
Net unrealized capital gains	1,179,189	
Change in nonadmitted assets	(853,611)	
Capital changes: Paid in	800,000	
Aggregate write-ins for gains in surplus	48,031	
Change in surplus as regards policyholders		2,293,700
Surplus as regards policyholders, December 31, 2003		$ 25,152,402

Reconciliation of Surplus as Regards Policyholders
from December 31, 2000 through December 31, 2003

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2000, per examination			$ 17,707,285
Net loss	$	$ 3,129,341	
Net unrealized capital gains	2,256,427		
Change in net deferred income tax	289,009		
Change in nonadmitted assets	773,744		
Capital changes: Paid-in	800,000		
Surplus adjustments: Paid-in	7,000,000		
Aggregate write-ins for losses in surplus		544,722	
Totals	$ 11,119,180	$ 3,674,063	
Net increase in surplus as regards policyholders			7,445,117
Surplus as regards policyholders, December 31, 2003, per examination			$ 25,152,402

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Write-Ins for Other Than Invested Assets

The Company included reinsurance premiums receivable in the above captioned account in the amount of $2.7 million, $0, and $4.4 million in its 2002 and 2003 Annual Statements and in its March 31, 2004 Quarterly Statement, respectively. The Company offset reinsurance premiums receivable from First American Specialty Insurance Company of $22.5 million with reinsurance payable on paid losses and loss adjustment expense account at year-end of 2003. The National Association of Insurance Commissioners (NAIC) Statements of Statutory Accounting Principles (SSAP) No.62 prescribes that reinsurance premium receivable should be reported in uncollected premiums account. It is recommended that the Company properly and consistently report and classify its accounts in the Annual Statements. It is also recommended that the Company apply its treaty offset clause on a consistent basis.

(2) Losses and Loss Adjustment Expenses

The Company's reserves for losses and loss adjustment expenses are prepared by the Company's consulting actuary. Based on the review by a Casualty Actuary from the California Department of Insurance, the Company's reserves for losses and loss adjustment expenses at year-end of 2003 were determined to be reasonable and have been accepted for purposes of this examination.

(3) Federal Income Taxes Provision

The Company recorded a federal income tax benefit of $29,008 in its 2003 Annual Statement. The Company calculated the federal income tax benefit based on statutory income, and did not incorporate the book and tax differences to adjust its statutory income to taxable income. As a result, the federal income benefit was understated by $800,000 at year-end 2003. Meanwhile, the Company did not record the change in net deferred income tax as a decrease to surplus. Due to the neutral impact on the Company's surplus, no examination adjustments were made.

In addition, the examination of deferred taxes disclosed the deficiencies in calculating net deferred taxes such as the undocumented determination of tax basis of the components of deferred items and the reversal pattern and timing of the temporary difference associated with loss reserves etc. It is recommended that the Company improve its reporting of both current and deferred income taxes to comply with the NAIC SSAP No. 10.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Holding Company Transactions (Page 5): It is recommended that the Company enter a cost-sharing agreement with First American Specialty Insurance Company to comply with California Insurance Code (CIC) Section 1[illegible].5(b)(4).

Reinsurance – Provision for Reinsurance (Page 7): It is recommended that the Company obtain new letters of credit to include the Company as beneficiary. It is recommended that the Company record its provision for reinsurance separately from First American Specialty Insurance Company.

Accounts and Records (Page 8): It is recommended that the Company provide the policy level aging detail for the examination in the future. It is recommended that the Company establish the proper aging procedures for each of the detailed policy inventory of agents' balances. It is also recommended that the Company maintain a complete audit trail from the Annual Statement to individual detailed records to facilitate the examination.

Comments on Financial Statement Items – Aggregate Write-ins for Other Than Invested Assets (Page 12): It is recommended that the Company classify assumed reinsurance premium receivable to uncollected premiums account and consistently comply with the NAIC Statements of Statutory Accounting Principles No. 62. It is recommended that the Company apply the offset provision of its reinsurance treaty on a consistent basis.

Comments on Financial Statement Items – Federal Income Taxes Provision (Page 12): It is recommended that the Company adjust its statutory income to taxable income to calculate the federal income tax provision. It is recommended that the Company improve the reporting of its current and deferred taxes to comply with the NAIC Statements of Accounting Principles No.10.

Previous Report of Examination

Management and Control – Affiliated Company Agreements (Page 4): It was recommended that the agreements be amended to reflect the new name of the Company. The agreements were amended reflecting the new name of the Company.

Reinsurance – Ceded (Page 7): It was recommended that the Company amend its reinsurance agreement to meet the requirements of CIC Section 922.2(a)(2). The Company met the requirements of CIC Section 922.2(a)(2).

Accounts and Records – (Page 7): It was recommended that the Company evaluate recommendations and make appropriate changes to strengthen its information system controls. The Company implemented the addressed recommendation.

Comments on Financial Statements - Bonds and Stocks (Page13): It was recommended that the Company change its Custodial Agreement with Union Bank of California to reflect its name change and the principal place of business. It was recommended that the Company reflect the correct securities deposited with the State of California on Schedule E of the Annual Statement. The Company implemented these recommendations.

Comments on Financial Statements - Cash and Short-term Investments and Drafts Outstanding (Page 13): It was recommended that the Company record all bank reconciliation adjustments in a timely manner and to reflect the "reconciled" book balance in the Annual Statement. The Company implemented this recommendation.

Comments on Financial Statements - Amounts Withheld or Retained by Company for Accounts of Others (Page 14): It was recommended that the Company make the necessary Unclaimed Property Act Filing annually with the states in which it conducts business. The Company implemented this recommendation.

ACKNOWLEDGEMENT

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

Respectfully submitted,

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Irene Song, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California