



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY OF OREGON
PORTLAND, OREGON**

NAIC CODE 35955

AS OF

DECEMBER 31, 2009

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SALUTATION

March 25, 2011

Honorable Joseph Torti III, Superintendent
Chairman, NAIC Financial Condition (E) Committee
State Corporation Commission
Rhode Island Department of Business Regulation
Cranston, Rhode Island

Honorable Monica J. Lindeen, Commissioner
Secretary, Zone IV-Western
Montana Office of the Commissioner of Securities and Insurance
Helena, Montana

Honorable Scott Harra, Acting Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Superintendent, Commissioner and Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY OF OREGON
10260 SW Greenburg Road, Suite 448
Portland, Oregon 97223

NAIC Company Code 35955

hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of California Casualty General Insurance Company of Oregon. The examination was conducted in conjunction with the multi-state examination of insurers within the California Casualty Group, under the lead of the California Department of Insurance. The last examination of the Oregon domestic insurer was completed as of December 31, 2006. This examination covers the period of January 1, 2007, to December 31, 2009.

We conducted our examination pursuant to ORS 731.300 and in accordance with the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instruction when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

COMPANY HISTORY

The California Casualty Group (CCG) began in 1914 by Carl G. Brown, Sr., as a customer-owned insurance company by the name of California Casualty Indemnity Exchange, which originally wrote workers' compensation risks in California. In 1917 the company began

offering automobile insurance, with homeowner's coverage starting in 1954. Effective October 1, 1997, CCG exited the workers' compensation line and placed all existing business into run-off.

In 1951, CCG pioneered what is currently an industry trend by seeking endorsement of its affinity insurance programs by the California Teachers Association (CTA) to provide auto and home insurance to its members. It still serves CTA and its members and have expanded nationally with over 100 other endorsements from groups including the National Education Association (NEA); many police, state trooper, and firefighter associations; and universities and medical centers.

CCG formed the Company in 1977 as the California Casualty General Insurance Company, and it commenced business in March 1978 as a California domiciled stock insurance company. The Director of DCBS approved the redomestication of the Company to Oregon on February 7, 2005. Concurrently, the Company adopted its current name.

Capital Stock

The Articles of Incorporation, Article Six, authorize the Company to issue thirty thousand (30,000) shares of stock with a par value of \$100 per share. Of these, 26,020 shares have been issued, and 100% of the outstanding shares are owned by California Casualty Insurance Company. The reported gross paid in and contributed surplus totaled \$12,200,000. The capital and paid in surplus of the Company did not change during the period under examination.

Dividends to Stockholders and Other Distributions

From 2007 to 2009, the Company did not declare or pay any dividend or make any distribution to its stockholder.

CORPORATE RECORDS

Board Minutes

In general, the review of the Board meeting minutes of the Company indicated the minutes support the transactions of the Company and clearly describe the actions taken by its directors and officers. A quorum, as defined by ORS 731.302, met at all of the meetings held during the period under review.

The Company's Bylaws authorize committees, but no committees were formed during the period under examination. Instead, the Advisory Board of the upstream parent, California Casualty Indemnity Exchange (CCIE), has created and delegated responsibilities to four separate committees: 1) an Audit and Financial Review Committee, 2) a Nominating/Compensation/Governance Committee, 3) an Investment Policy Review Committee, and 4) a Contribution Committee. On December 2, 2009, the Board formally adopted a resolution to designate the Audit and Financial Review Committee of CCIE to serve as the Company's Audit Committee, to comply with provisions of the NAIC Annual Financial Reporting Model Regulation. The examiners reviewed the minutes of all committee meetings held during the period under examination.

Articles of Incorporation

The Articles of Incorporation were filed with the Oregon Insurance Division on February 7, 2005. No changes were made during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance code.

Bylaws

The Company's Bylaws were amended effective March 4, 2009, but the changes were nonsubstantive. The Restated Bylaws conformed to Oregon statutes.

Statutory Deposit

At year-end 2009, the Company maintained deposits with the Oregon Insurance Division in the amount of \$1,250,000 (par value) for the protection of all policyholders. An additional \$250,000 (par value) is held as special deposits.

In addition, the Company maintained deposits in California in the amount of \$100,000 (par value) and with New Mexico in the amount of \$300,000 (par value). These deposits were verified from the records of the California Department of Insurance and the New Mexico Department of Insurance, respectively.

MANAGEMENT AND CONTROL

Board of Directors

Management and control of the Company was vested in a Board of Directors, comprised of five advisory board members of the Exchange, CCIE, which included two local members to meet the requirements of ORS 732.305. All directors would be considered external Directors, as none are employed by any of the CCG companies. Article Eight of the Company's Articles of Incorporation state the number of directors shall be five (5), at least two of whom shall be Oregon residents. As of December 31, 2009, the Company was governed by a five member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
William R. Dahlman Studio City, CA	Chairman WRD & Associates	2009
Jon H. Hamm Sacramento, CA	Chief Executive Officer California Association of Highway Patrolmen	2009
George G. C. Parker* Portola Valley, CA	Professor of Finance Stanford University Graduate School of Finance	2005

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Lynne F. Siegel Portland, OR	Philanthropist Strategies for Philanthropy	2005
Thomas H. Tongue Portland, OR *Chairman	Attorney Dunn Carney Allen Higgins & Tongue LLP	2005

Mr. Dahlman was appointed to replace R. Kirk Lindsey who retired from the Board at the end of 2009. He was subsequently elected to the Board on March 3, 2010.

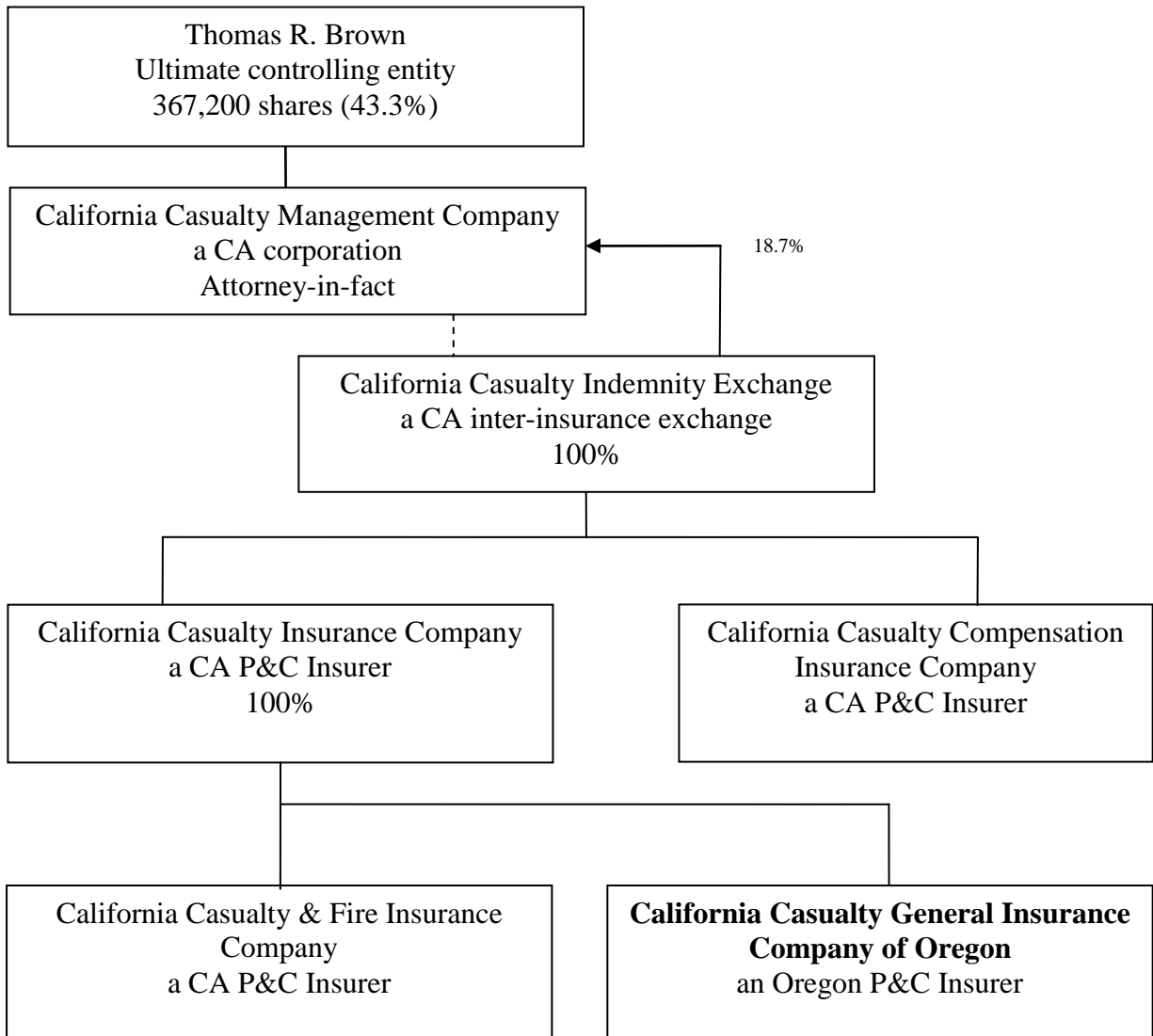
Officers

Principal officers serving at December 31, 2009, were as follows:

<u>Officer</u>	<u>Office</u>
Carl "Beau" Brown	President
Michael A. Ray	Treasurer
James M. Sevey	Secretary

Insurance Company Holding System

The Company is part of an insurance company holding system in which an individual, Thomas R. Brown, is the ultimate controlling entity. The organization divides itself into two separate structures; the Management Group represented by California Casualty Management Company (CCMC) and the California Casualty Group represented by the five insurance companies. CCMC is the attorney-in-fact for CCIE, also called the Exchange. CCIE is not incorporated, but it does own a portion of CCMC and collects dividends from its investment. It owns, directly and indirectly, 100% of the insurance companies, as shown in the following chart:



A brief description of the entities listed in the above chart is as follows:

California Casualty Management Company (CCMC) is a California corporation formed to be the attorney-in-fact of California Casualty Insurance Exchange. It manages all business of the insurers under a management agreement described below.

California Casualty Insurance Exchange (CCIE) is a California domiciled inter-insurance exchange, also known as a reciprocal. CCIE, as an exchange, is a special form of insurance organization that is not a corporation, but is ultimately owned by its subscribers, all of whom are policyholders. Policyholders who buy insurance must first join to become subscribers.

To join, each subscriber to CCIE approves a written Underwriters Agreement that appoints CCMC to perform all business functions on the subscriber's behalf. Under California law, an exchange is considered the insurer, while each subscriber is an insured. CCIE owns 186,000 common shares of CCMC, 158,722 of which are voting shares and would represent an 18.7% ownership and control. Additionally, CCIE owns 100% of two insurance subsidiaries:

California Casualty Compensation Insurance Company (CCCIC) is a California domiciled property and casualty insurer. It currently holds the remaining workers' compensation risks, as well as any non-personal lines risks, within the CCG. These lines have been in run-off since 1997.

California Casualty Insurance Company (CCIC) is a California domiciled property and casualty insurer. It owns 100% of the capital stock of the Company and would be considered the direct parent. In addition to the Company, it also owns one other insurer.

California Casualty & Fire Insurance Company (CCFIC) is a California domiciled property and casualty insurer. It is owned 100% by CCIC.

INTERCOMPANY AGREEMENTS

Management Agreement

Effective January 1, 1994, all of the CCG insurers became party to a Management Agreement covering all insurance business operations through CCMC. After the Company redomesticated to Oregon, the contract was amended on February 7, 2005, to reflect the new name of the Company. The contract covers marketing, underwriting, collection of premiums, adjusting, defending or prosecuting claims, losses and other legal actions, accounting and recordkeeping, preparation of accounting and statistical reports and statements, reinsurance

and investments. The terms of the agreement have been approved by both the California Department of Insurance and the Oregon Insurance Division.

Tax Allocation Agreement

Effective January 1, 1999, all of the CCG insurers became party to a tax allocation agreement through CCIE. Under the terms of the agreement, the federal income tax liability shall be determined for the group and allocated to each subsidiary in a ratio of net taxable income of the individual subsidiaries to the total group's net taxable income. Any credits, such as net operating losses, capital losses, alternative minimum tax (AMT) operating losses or other credits shall be reimbursed to CCIE or the subsidiary eligible for such credit. Amounts owing shall be settled within 90 days, in accordance with SSAP No. 10, paragraph 13. Intercompany amounts not settled within 90 days are to be treated as loans or advances and nonadmitted.

Intercompany Pooling Agreement

During the period covered by this examination, the Company was part of CCG's pooling arrangement which was last amended effective July 1, 2006, and is described in detail in the Reinsurance section below. Subsequent to the examination date, the agreement was amended effective January 1, 2011, to make changes requiring proportionate sharing of expenses in uncollectable recoverable, restricting purchase of reinsurance by subsidiary insurers, providing for a twelve month written notice of termination, and that pool participants be subject to joint and several liability.

CONFLICT OF INTEREST

The Company is party to the California Casualty Code, a comprehensive code of business ethics and conduct, which requires officers, directors, and selected responsible employees to report annually any conflicts of interest or violations of ethical business practices to the

Company. From a review of the completed conflict of interest statements, it appeared that the affected personnel performed due diligence in completing the statements. No material conflicts of interest were noted.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2009, CCMC was covered for up to \$3,000,000 single loss limit, \$6,000,000 aggregate limit, after a \$250,000 deductible, against losses from acts of dishonesty and fraud by its employees. An amendment of the policy included the Company as an insured. This coverage exceeded the minimum recommended by the NAIC Financial Condition Examiners Handbook. Other insurance coverages in force at December 31, 2009 were determined to be adequate, and include the following:

Commercial general liability	Commercial property/crime
General liability	Business automobile liability
Umbrella excess liability	Directors & officers liability
Workers' compensation	

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

The Company does not have any employees. All retirement plans, deferred compensation, post retirement benefits and compensated absences and other post retirement benefit plans are maintained by California Casualty Management Company as part of the management agreement.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was authorized to write property and casualty excluding workers' compensation business in Oregon. The Company was licensed in a total of seventeen states at year-end 2009, identical to the number and composition in the prior examination, and reported direct business in ten of these states, as follows:

<u>State</u>	<u>Direct Premiums Written</u>
Arizona	\$ 11,416,295
California	0
Idaho	0
Illinois	3,718,464
Iowa	0
Kansas	0
Kentucky	3,102,001
Missouri	3,092,821
Nebraska	993,294
Nevada	0
New Mexico	0
Ohio	7,371,622
Oregon	15,440,676
Utah	3,043,092
Washington	2,472,633
Wisconsin	0
Wyoming	2,050,468
Total	<u>\$ 52,701,366</u>

At year-end 2009, the Company wrote the following lines of business:

	<u>Direct Premium</u>	<u>Percentage</u>
Personal automobile	\$26,066,560	49.4%
Auto physical damage	20,909,000	39.7%
Homeowner's	5,535,261	10.5%
Other lines	<u>190,545</u>	<u>0.4%</u>
Total	<u>\$52,701,366</u>	<u>100.0%</u>

GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following schedule.

Amounts were derived from Company's annual statements, except in those years where a report of examination was published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2005	\$ 78,673,107	\$49,551,250	\$29,121,857	\$2,854,845
2006*	78,334,891	48,452,223	29,882,668	2,170,254
2007	127,473,939	95,933,917	31,540,022	1,870,488
2008	95,566,854	62,984,125	32,582,730	1,079,554
2009*	95,823,588	62,296,958	33,526,629	975,694

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years. The amounts were compiled from copies of the Company's annual statements and, where indicated, from the previous examination reports.

<u>Year</u>	<u>(1) Premium Earned</u>	<u>(2) Losses and LAE Incurred</u>	<u>(3) Other Underwriting Expenses Incurred</u>	<u>(2)+(3)/(1) Combined Ratio</u>
2005	\$39,521,112	\$28,731,029	\$10,467,648	99.2%
2006*	29,353,970	21,107,870	8,795,323	101.9%
2007	28,178,115	21,024,202	7,873,392	102.6%
2008	26,899,240	20,518,438	6,879,179	101.8%
2009*	26,362,022	20,047,954	7,152,262	103.2%

*Per examination

REINSURANCE

During the period covered by this examination, the Company was party to an Intercompany Pooling Agreement with CCIE, which was last amended effective July 1, 2006, with CCIE designated as the "Lead Company" in the Group. Under the terms of the pooling agreement, CCIE will automatically reinsure and assume all underwriting liabilities of the subsidiaries. All personal lines business is then retro-ceded and assumed by the other participants. The reinsurance participants and their respective participation percentages are as follows:

California Casualty Insurance Exchange (CCIE)	70.00%
California Casualty General Insurance Company of Oregon (CCGIC)	12.00%
California Casualty & Fire Insurance Company (CCFIC)	10.00%
California Casualty Insurance Company (CCIC)	8.00%
California Casualty Compensation Insurance Company (CCCIC)	<u>0.00%</u>
Total	<u>100.00%</u>

CCG ceased writing new workers' compensation and commercial lines of business effective October 1, 1997, however, the workers' compensation and miscellaneous lines of business in run-off are retroceded to and assumed by CCCIC.

The pooling agreement contains a satisfactory insolvency clause, in accordance with the provisions of ORS 731.508(3). In addition, it was determined that the pooling agreement provided for risk transfer in accordance with the requirements of SSAP No. 62.

Although CCG has various reinsurance agreements with outside reinsurers and its affiliates, the Company is not a party to any other reinsurance agreements on a direct basis.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2009, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. The Company has a system in place to account for unclaimed funds. The Company has filed the reports on abandoned property pursuant to the provisions of ORS 98.352.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations made in the 2006 report of examination. A formal follow-up report was not prepared.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of California Casualty General Insurance Company of Oregon as of December 31, 2009:

- Statement of Assets
- Statement of Liabilities, Surplus, and Other Funds
- Statement of Income
- Reconciliation of Capital and Surplus Since the last Examination

CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY OF OREGON
ASSETS
As of December 31, 2009

ASSETS	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Note</u>
Bonds	\$44,237,735	\$ -	\$44,237,735	1
Cash, cash equivalents and short-term investments	367,574	-	367,574	
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	1
Subtotal, cash and invested assets	<u>\$44,605,309</u>	<u>\$ -</u>	<u>\$44,605,309</u>	
Investment income due and accrued	508,518	-	508,518	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	248,984	-	248,984	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	36,061,762	-	36,061,762	
Reinsurance				
Amounts recoverable from reinsurers	2,766,791	-	2,766,791	
Current FIT recoverable	4,675	-	4,675	
Net deferred tax asset	1,092,715	-	1,092,715	
Guaranty funds receivable or on deposit	87	-	87	
Receivable from parent, subsidiaries and affiliates	10,397,656	-	10,397,656	
Aggregate write-ins for other than invested assets	<u>137,090</u>	<u>-</u>	<u>137,090</u>	
Total Assets	<u>\$95,823,587</u>	<u>\$ -</u>	<u>\$95,823,587</u>	

NOTE: Total assets differs from total liabilities, surplus and other funds due to rounding.

CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY OF OREGON
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2009

LIABILITIES, SURPLUS AND OTHER FUNDS	Balance per <u>Company</u>	Examination <u>Adjustments</u>	Balance per <u>Examination</u>	Note
Losses	\$ 9,840,950	\$ -	\$ 9,840,950	2
Reinsurance payable on paid loss and loss adjustment expenses	786,686	-	786,686	
Loss adjustment expenses	3,206,524	-	3,206,524	2
Other expenses	67,937	-	67,937	
Taxes, licenses and fees	111,206	-	111,206	
Unearned premiums	13,258,521	-	13,258,521	
Advanced premium	149,134	-	149,134	
Ceded reinsurance premiums payable	23,139,646	-	23,139,646	
Amounts withheld or retained by company for account of others	470,428	-	470,428	
Payable to parent, subsidiaries and affiliates	11,202,181	-	11,202,181	
Aggregate write-ins for liabilities	<u>63,746</u>	-	<u>63,746</u>	
Total Liabilities	<u>\$62,296,959</u>	<u>\$ -</u>	<u>\$62,296,959</u>	
Common capital stock	2,602,000	-	2,602,000	
Surplus notes	-	-	-	
Gross paid in and contributed surplus	12,200,000	-	12,200,000	
Unassigned funds (surplus)	<u>18,724,629</u>	-	<u>18,724,629</u>	
Surplus as regards policyholders	<u>33,526,629</u>	-	<u>33,526,629</u>	
Total Liabilities, Surplus and other Funds	<u>\$95,823,588</u>	<u>\$ -</u>	<u>\$95,823,588</u>	

CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY OF OREGON
STATEMENT OF INCOME
For the Year Ended December 31, 2009

	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Note</u>
Underwriting Income				
Premiums earned	\$26,362,022	\$ -	\$26,362,022	
Deductions				
Losses incurred	15,500,823	-	15,500,823	
Loss expenses incurred	4,547,131	-	4,547,131	
Other underwriting expenses incurred	7,152,262	-	7,152,262	
Aggregate write-ins for underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>27,200,216</u>	<u>-</u>	<u>27,200,216</u>	
Net underwriting gain or (loss)	(838,194)	-	(838,194)	
Investment Income				
Net investment income earned	1,947,866	-	1,947,866	
Net realized capital gains or (losses)	<u>15,579</u>	<u>-</u>	<u>15,579</u>	
Net investment gain or (loss)	1,963,445	-	1,963,445	
Other Income				
Net gain or (loss) from agents' or premium balances charged off	(130,594)	-	(130,594)	
Finance and service charges not included in premiums	278,020	-	278,020	
Aggregate write-ins for miscellaneous income	<u>-</u>	<u>-</u>	<u>-</u>	
Total other income	<u>147,426</u>	<u>-</u>	<u>147,426</u>	
Dividends to policyholders	-	-	-	
Federal and foreign income taxes incurred	<u>296,983</u>	<u>-</u>	<u>296,983</u>	
Net income	<u>\$ 975,694</u>	<u>\$ -</u>	<u>\$ 975,694</u>	

CALIFORNIA CASUALTY GENERAL INSURANCE COMPANY OF OREGON
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST
EXAMINATION
For the Year Ended December 31,

	2009	2008	2007
Surplus as regards policyholders, December 31, previous year	<u>\$32,582,730</u>	<u>\$31,540,022</u>	<u>\$29,882,668</u>
Net income	975,694	1,079,554	1,870,488
Change in net unrealized capital gains or (losses)	-	-	-
Change in net deferred income tax	(41,077)	(77,436)	(288,709)
Change in nonadmitted assets	9,282	40,590	75,575
Change in provision for reinsurance	-	-	-
Change in surplus notes	-	-	-
Surplus (contributed to) withdrawn from protected cells			
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:			
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:			
Paid in	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Net remittances from or (to) Home Office	-	-	-
Dividends to stockholders (cash)	-	-	-
Change in treasury stock	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>-</u>	<u>-</u>	<u>-</u>
Change in surplus as regards policyholders for the year	<u>943,899</u>	<u>1,042,708</u>	<u>1,657,354</u>
Surplus as regards policyholders, December 31, current year	<u>\$33,526,629</u>	<u>\$32,582,730</u>	<u>\$31,540,022</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

Most of the Company's long-term bond investments were in US obligations, US federal agency bonds, municipal obligations, and corporate issues. The Company did have a moderate exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2009, but the carrying book value of \$17.1 million comprised over 38% of the total long-term bond portfolio, and 38% of all invested assets. An additional \$4.6 million was invested in bonds of banking and financial corporations.

Short-term deposits consisted of deposits with Fidelity Institutional Money Market held in the custodial account at Bank of New York Mellon Trust Company.

A comparison of the major investments over the past five years shows the following (in thousands):

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>
2005	\$48,853,204	\$ 0	62.1%	0.0%
2006*	40,215,985	1,262,747	51.3%	1.6%
2007	42,796,768	487,205	33.6%	0.4%
2008	42,235,495	1,744,515	44.2%	1.8%
2009*	44,237,735	367,574	46.2%	0.4%

The Board of Directors approved the investment transactions in each of the years under review, pursuant to ORS 733.740. As of December 31, 2009, invested assets with a book value of \$2,978,226, representing 6.7% of the total invested assets, were invested in amply secured obligations of the United States or in FDIC insured cash deposits. The Company was in compliance with ORS 733.580.

Effective March 14, 2005, the Company entered into a custodial agreement with Bank of New York Trust Company, NA (now New York Mellon Trust Company). The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Actuarial Reserves

As described earlier in this report, the Company participated in an intercompany reinsurance pooling arrangement, whereby 100% of the direct business was ceded to the Pool, and 12% of the nationwide pool was retroceded back to the Company. As a result, all loss reserves, LAE reserves, premiums and considerations, unearned premium reserves, and any other amount to be actuarially determined were booked at the end of each reporting period in an amount equal to 12% of the pooled amounts.

A review of the losses and loss adjustment expense reserves for the California Casualty Group was performed by Frederick A. Urschel, ACAS, MAAA, an actuary for the California

Department of Insurance. As part of his review, he examined the Actuarial Report Supporting Statements of Actuarial Opinion for California Casualty Insurance Companies as of December 31, 2009, prepared by Joseph L. Volponi, FCAS, MAAA, Managing Director and Chief Actuary for CCG.

Mr. Urschel reviewed the reconciliation of the data used in the Actuarial Report to the data in Schedule P and found them to be consistent. He did not review the underlying data used to create the annual statement filing, but relied upon the work performed by the examiners.

He further reviewed the Statements of Actuarial Opinion and the supporting report. In general, he found that Mr. Volponi used appropriate actuarial methods, and the indicated loss and LAE reserves included in the report were reasonable. The analysis was realistically conservative in approach and he concluded that a risk loading of \$13 million over and above the central estimate was appropriate.

The appointed actuary, Mr. Volponi, opined that the reserves for loss and LAE carried by California Casualty Insurance Companies as of December 31, 2009, were reasonable. Mr. Urschel concurred that the loss reserves of California Casualty Insurance Companies are reasonably stated as of December 31, 2009.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments made to the Company's surplus as a result of this examination, and no recommendations or comments made.

CONCLUSION

During the three year period covered by this examination, the surplus of the Company has increased from \$29,882,668, as presented in the December 31, 2006, report of examination to \$33,526,629, as shown in this report. The comparative assets and liabilities are:

	<u>2009</u>	<u>December 31,</u> <u>2006</u>	<u>Change</u>
Assets	\$95,823,588	\$78,334,891	\$17,488,697
Liabilities	<u>62,296,958</u>	<u>48,452,223</u>	<u>13,844,735</u>
Surplus	<u>\$33,526,629</u>	<u>\$29,882,668</u>	<u>\$ 3,643,962</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Timothy R. Hurley, CFE, insurance examiner, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Examiners for the California Department of Insurance (CDI) provided us with workpapers for their examination of the California Casualty Group that aided us in our review of common systems and practices. We wish to thank Wayne Leiran, CFE, contract examiner for CDI and the Examiner-In-Charge, as well as Mei Gu, CFE, and Jason Ng, both examiners for CDI.

Respectfully submitted,

Greg A. Lathrop, CFE
Supervising Financial Examiner
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Greg A. Lathrop, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of California Casualty General Insurance Company of Oregon, Portland, Oregon.

2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of California Casualty General Insurance Company of Oregon was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Greg A. Lathrop, CFE
Supervising Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this _____ day of _____, 2011.

Notary Public for the State of Oregon

My Commission Expires: _____