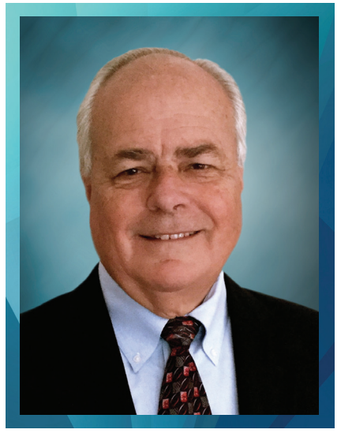
ANNUAL REPORT 2019

California Casualty Group



Wayne S. Diviney

Chairman, Advisory Board
California Casualty Indemnity Exchange

Chairman
California Casualty Insurance Company
California Casualty & Fire Insurance Company
California Casualty General Insurance Company of Oregon
California Casualty Compensation Insurance Company

California Casualty Group is comprised of California Casualty Indemnity Exchange (the "Exchange") and its four wholly-owned subsidiary insurance companies: California Casualty Insurance Company, California Casualty & Fire Insurance Company, California Casualty General Insurance Company of Oregon and California Casualty Compensation Insurance Company. The Exchange is governed by its Advisory Board.

The insurance business of the Exchange and its subsidiary insurance companies is managed, by contract, by California Casualty Management Company, a separate and independent company.

The relationship between California Casualty Management Company and the Exchange has been in place since 1917.

Looking Back **At 2019**

Despite distractions in 2019 and COVID-19 uncertainty as we move into 2020, California Casualty's employees remain dedicated to providing service with the highest levels of care, compassion and understanding. Our customers who work in education, public safety and nursing will surely encounter the pressures of uncertainty and disruption in 2020. Drawing upon California Casualty's 106 years of experience, we commit to be there with financial protection when those who make a difference in our communities need us most.

California Casualty Group (CCG) has achieved premium growth for eight consecutive years and policy growth in ten of the past twelve years. More recently, however, CCG has been unprofitable with declining surplus, with general operating unprofitability compounded by three of the four most destructive wildfire years in California history in 2015, 2017 and 2018.

On September 11, 2019, the California Casualty Management Company (CCMC) Board of Directors, at the recommendation of CCMC Chairman Beau Brown, elected me Chief Executive Officer. As CCMC's President and CEO, I have focused on working with our management team to accelerate CCG's return to profitability.

Managing CCG to operating profitability and surplus growth is our top priority. At the same time, we are working to successfully deploy California Casualty's new Guidewire policy system. This system will enhance CCG's ability to compete in an increasingly digital insurance marketplace. We deployed our first state, Indiana, for policies effective October 1, 2019. Our big target is to deploy California for policies effective August 1, 2020, after which we will have 57% of customers on the Guidewire system. By the end of 2021, we plan to have over 80% of customers on the system.

To secure more protection for CCG against future catastrophes that could severely reduce CCG's surplus, we have, for the second year in a row, opted for an additional first layer of reinsurance protection, starting at a lower retention point of $10 million and providing $8 million of coverage. In addition, in

> ***"Drawing upon California Casualty's 106 years of experience, we commit to be there with financial protection when those who make a difference in our communities need us most."***

2020 CCG has an additional $5 million of limit in its upper layer of reinsurance. In total, CCG has $68 million of coverage for 2020 above its $10 million retention.

CCG's direct written premium grew from $378.9 million in 2018 to $393.7 million in 2019, an increase of 3.9%. Our 2019 total customer retention was outstanding at 92.5 percent, within two-tenths of a point of our historic high, driving growth of policies-in-force to 294,813. Policyholders' surplus declined from $191.6 million to $167.2 million.

After an exploration of a sale of CCMC, the CCMC Board, in conjunction with representatives of CCG's Advisory Board, decided in August 2019 to terminate the sale exploration process. The sale exploration was to determine whether a partner might bring insights, experience, resources and scale to help CCG grow prudently and more profitably. We did not receive a proposal that was in the best interests of all California Casualty stakeholders, comprised of CCG's policyholders and CCMC's affinity group partners, employees and shareholders.

Customer Service satisfaction at 99.8 percent and Claims satisfaction at 96.6 percent remained very strong in 2019. Our employees will continue providing exceptional service and fulfilling our promises to customers in times when they need us most. Thank you to our employees for their dedication to CCG's policyholders.

Joseph L Volponi

Joseph L. Volponi, FCAS

President | Chief Executive Officer
California Casualty Management Company
Advisory Board Member
California Casualty Indemnity Exchange

Deep Roots **Create Strong Branches**

For over 100 years, California Casualty employees have risen up to serve our insureds' needs, in good times and in difficult ones. Our strong past defines our encouraging future as we navigate new ways of communicating, new ways of delivering value, and new opportunities for growth.

Our people represent our values, at every point of interaction and impact:

- Acting with Integrity
- Fulfilling Our Promises
- Providing Exceptional Service
- Pursuing Excellence Through Learning
- Working as a Team

These values are a part of who we are individually and as a team; in direct client contact, and as we work together behind the scenes to create a satisfying and supportive experience for our insureds.

"Every interaction with fellow employees, company executives, policyholders and prospects is an opportunity to build relationships and lasting positive impressions. Every employee is essential to the success of our organization through the satisfaction of our customers."
Beau Brown, Chairman

Service-Focused; Human-Directed

From delivering right-sized insurance protection to a reassuring Claims experience, we are honored to support the American Heroes who make a difference for their fellow citizens every day. We strive to recognize and reflect their commitment to service in how we care for them.

While other companies focus on profits, we remain steadfast in our focus on our people. Although there have been recent challenges to our bottom line, we are committed to a strategy that emphasizes the importance of strong relationships and living up to our promises. Care and service create loyalty, just as deep roots create strong branches.

We hear every day that our human touch makes a difference in today's fast-paced society. We consider every call, email and letter an opportunity to make a great impression and, more importantly, a lasting impact on our prospects and customers.

From welcome calls to renewal follow-ups, our goal is to personally get to know our constituents. We verify appropriate coverage amounts and make sure customers know how to engage with us in the most convenient way for them. These conversations often uncover needed updates, like a change of address, a billing issue or a newly applicable discount. We work hard to achieve the status of trusted advisor by making every interaction with California Casualty an exceptional one.

"I feel so good helping our customers understand their policies, explaining payment options and just letting them know that we welcome them into the California Casualty family."

"I get to reiterate all the benefits we offer and how much we appreciate what they do."

Our claims journey also embodies our values. We expect every Claims representative to address the human element of the situation first and foremost. A claim is never a number, and success is never evaluated on the speed of resolution. We connect, listen, empathize, and sometimes even cry with our customers to help them recover from a stressful experience. When appropriate, we sit down with people face-to-face. We consider it our privilege to put a personal touch on a difficult situation.

Actively Listening to Continually Improve

To deliver the exceptional customer experience that is our hallmark, we are committed to a culture of listening. From welcome calls to satisfaction surveys, best-in-class software upgrades to common-language communications, we are always open to developing new ways to connect, making it easier for our customers to do business with us, and for us to keep our promise of service to them.

In 2019, we brought our teams together to share experiences, discuss areas of improvement, and detail new initiatives, with the common goal of providing the protection and service that our customers deserve. Out of this collaborative immersion came fresh new ideas that energized our staff to deliver service that has earned California Casualty over 1,300 five-star Trustpilot® reviews and a 99-percent customer service satisfaction rating.

This is the result of living our values and empowering our people to focus on service.

Finding New Ways to Connect

To meet a rapidly changing world of technology, improve our way of doing business and implement

> *"Every interaction with fellow employees, company executives, policyholders and prospects is an opportunity to build relationships and lasting positive impressions."*
>
> **Beau Brown, Chairman**

new ways to connect, California Casualty has replaced some older systems with the Guidewire platform of products, used by a growing number of forward-looking insurance companies.

These improvements include easier-to-read policy documents, less paperwork, billing with more payment options, expanded ability for online self-service, and quicker conversations as our systems allow for greater maneuverability.

We are undertaking this huge, enterprise-wide initiative because enhancing our customers' experience and satisfaction is our top priority. Select employees from our Partner Relations, Sales, Service, Finance, Underwriting, and Claims teams have been testing the system behind the scenes, adding our unique brand of California Casualty "human touch" to the new technology. They have worked through 45 "customer journeys" from start to finish, making sure the experience is friction-free.

Some policyholders will experience the changes before others, as the new system will be rolled out state-by-state over a period of time. The measured deployment is to ensure that the benefits of Guidewire meet our exacting requirements to maximize customer experience and satisfaction.

Reaffirming Our Promise

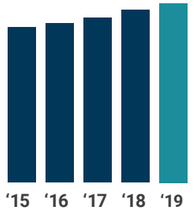
Over the past century and more, California Casualty has weathered world wars, economic turmoil, and catastrophic natural disasters. We have faced these challenges together, our employees and our insureds, and we look forward to many more years serving and protecting American Heroes.

People who commit to making a difference for our communities deserve financial protection that comes with the highest levels of care, service, compassion and understanding… which is why we exist.

Every day is a new opportunity to fulfill our promise to our stakeholders. Our systems, processes and procedures all support the goal of satisfying one customer at a time, every time.

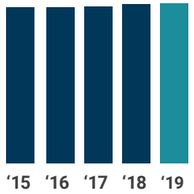
2019 Financial Highlights

Premium Written (in millions of dollars)



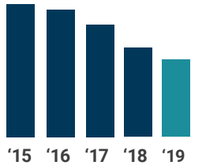
2015	341.3
2016	348.6
2017	360.8
2018	378.9
2019	393.7

Combined Auto/Home Policies in Force (in thousands)



2015	288.7
2016	287.7
2017	289.8
2018	293.1
2019	294.8

Policyholders' Surplus (in millions of dollars)



2015	284.3
2016	273.0
2017	241.6
2018	191.6
2019	167.2

Operating performance (in thousands of dollars)	2019	2018
Premiums written	393,655	378,911
Underwriting loss	(43,693)	(52,919)
Net investment income	10,856	11,092
Net realized gain	3,723	4,760
Other income (loss)	(269)	(105)
Net loss	(29,280)	(37,131)

Financial position (in thousands of dollars)	2019	2018
Assets	567,568	583,386
Liabilities	400,353	391,762
Policyholders' surplus	167,215	191,624

California Casualty **Indemnity Exchange**

Advisory Board*

Wayne S. Diviney [1]
National Education Association (Retired)

Karen M. Padovese [2]
GeoVera Holdings, Inc.

Carl B. (Beau) Brown, CPCU
California Casualty Management Company**

Micaela C. Cichocki
California Teachers Association

Jose A. Gomez, Ph.D
California State University, Los Angeles

Jon H. Hamm
California Association of Highway Patrolmen

Mitchell E. Hornecker
Modoc Consulting

Karen B. Kyhn
California Teachers Association (Retired)

Leona S. Lindner
NEA's Member Benefits Corporation

Michael G. McPherson
National Education Association

Robert R. Nicolay III
Progressive Corporation (Retired)

Edward G. Phoebus III
NEA's Member Benefits Corporation

Anthony D. Salazar
NEA's Member Benefits Corporation

Heather S. Schafer
National Volunteer Fire Council

Thomas M. Tongue, Esq.
Schwabe, Williamson & Wyatt

Joseph L. Volponi, FCAS
California Casualty Management Company**

[1] Chairman of the Board
[2] Secretary

Advisory Board Emeriti

David A. Aaker, Ph.D.
James D. Altman
Jonathan A. Brown, D.P.A.
John E. Cahill, Jr.
Carolyn E. Doggett
Peter Goldberg
R. Wayne Johnson
Barbara E. Kerr
Marston Nauman
Thomas H. Tongue, Esq.
Ralph M. Tornatore, Jr.
Suzanne M. Zimmer

Advisory Board Honoraries

Thomas R. Brown, CLU
William R. Dahlman
George G. C. Parker, Ph.D.
Lynne F. Siegel, J.D.

Newly Elected Board Members

Micaela C. Cichocki
California Teachers Association

Elected to the Advisory Board in January 2019

Anthony D. Salazar
NEA's Member Benefits Corporation

Elected to the Advisory Board in January 2019

* All of the members of the Advisory Board, except those representing California Casualty Management Company, are also directors of two of California Casualty Indemnity Exchange's subsidiaries: California Casualty & Fire Insurance Company and California Casualty Compensation Insurance Company.

**California Casualty Management Company employees are non-voting members of the Advisory Board.

California Casualty **Insurance Company** and California Casualty **General Insurance Company of Oregon**

Board of Directors and Officers

Wayne S. Diviney
National Education Association (Retired)

President
Joseph L. Volponi, FCAS
California Casualty Management Company

Jon H. Hamm
California Association of Highway Patrolmen

Treasurer
Michael A. Ray, CPA
California Casualty Management Company

Mitchell E. Hornecker
Modoc Consulting

Secretary
Joseph C. Muenzen, CPCU
California Casualty Management Company

Heather S. Schafer
National Volunteer Fire Council

Thomas M. Tongue, Esq.
Schwabe, Williamson & Wyatt

California Casualty **Management Company**

Carl B. (Beau) Brown, CPCU
Director
Chairman of the Board

Joseph L. Volponi, FCAS
Director
President
Chief Executive Officer

Kenneth G. Berry
Director

Thomas R. Brown, CLU
Director
Chairman Emeritus

Marston Nauman
Director
Vice Chairman Emeritus

Michael A. Ray, CPA
Director
Executive Vice President
Chief Financial Officer
Treasurer

James M. Sevey, CPCU
Director

Hong Chen, FCAS
Senior Vice President
Actuary

Fong-Yee Judy Jao, FCAS, MAAA
Senior Vice President
Actuary

James R. Kauffman, Esq.
Senior Vice President
Claims

Rose M. Lorentzen
Senior Vice President
Human Resources

T. Michael McCormick, Jr.
Senior Vice President
Chief Marketing Officer

Joseph C. Muenzen, CPCU
Senior Vice President
Underwriting, Product Dev. and Customer / Agency Services
Secretary

California Casualty Group