Annual Report
and
Form 10-K
2000

21st Century Insurance
i21.com
1-800-211-SAVE

Corporate Information

Corporate Offices
21st Century Plaza
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Woodland Hills,
California 91367
(818) 704-3700

Internet Site:
i21.com

Investor Relations
(818) 704-3595

Public Communications
(818) 704-3065

Transfer Agent and Registrar
American Stock Transfer
& Trust Company
40 Wall Street
New York,
New York 10005

Independent Auditors
Ernst & Young LLP
725 South Figueroa
Los Angeles,
California 90017

Annual Meeting
The annual meeting of shareholders will be held at 10 a.m., Tuesday, June 6, 2001, at the Marriott Hotel, 21850 Oxnard Street, Woodland Hills, California.

Trading Information
The Common Stock is traded on the New York Stock Exchange under the trading symbol ''TW''.

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Letter to Shareholders

Last year we described our expectation for 2000 as a difficult year, anticipating underwriting results would come under pressure from increases in loss costs and the negative impact of rate decreases taken in prior years. This is, in fact, what occurred and we experienced a substantial decline in net income for the year. Fortunately, in 2000 we also began an aggressive series of actions to improve results. As a consequence, our view of 2001 and beyond is more positive. We expect to see operating results improve as we move through the year.

In 2000, gross written premiums were $910.7 million, an increase of 3.4% over 1999; net earned premium was $825.5 million, an increase of 7.1%; and net income was $12.9 million compared to $87.5 million in 1999. At year-end, shareholders' equity stood at $720.6 million and total assets at $1.3 billion.

The 21st Century Franchise

21st Century is the pioneer in providing low cost, direct response personal auto insurance, beginning operations in 1958. In 2001, the Company is well positioned to capitalize on a tightening personal auto market and a general trend of consumers moving to lower expense direct response providers to save money. Some key points about our operations:

- We have no "channel" or distribution conflicts. We operate solely on a direct basis and pay no commissions to agents. There is no group of producers, affinity group or other entity that controls any segment of our business. All of our policies are written directly with our individual customers.
- At 14.4% we have among the lowest underwriting expense ratios of any personal lines insurance company. Lower expenses mean lower prices for consumers. Our reported expense ratio has increased in recent years as a result of rate decreases taken from 1996 to 1999 and an increase in costs as we modernize operations to improve service and reduce unit costs. We are committed to low cost operations, and you will see a decline in this ratio in 2001 and going forward.
- We offer an unparalleled multi-access service model to our customers, prospects and claimants:
    - Our staff of trained and experienced professionals answers the phone every hour of the day and night, 365 days a year, and provides our full range of services at all times. Pick up the phone and dial 1-800-211-SAVE to confirm this for yourself.
    - We provide a full function website (*i21.com*) that allows prospects to quote and buy a policy online; current customers to review the status of their account, make changes and pay their bills online; claim reports to be filed and a "Live Chat" option for any questions to be answered immediately online. Since October of 2000, over 56,000 customers have registered for service and the number of registrations and transactions grows daily.

- In addition to our non-stop phone and i21.com service, we have 11 In-Person Neighborhood Centers where prospects, customers and claimants can walk in and talk with 21st Century staff during business hours.

- We provide prompt, high-quality claims service in the midst of one of the most difficult claims environments in the country. California is characterized by high rates of fraud and litigation plus exceptionally intricate claim regulations. Through careful attention to compliance and sound claim practices, we are able to provide quick, focused and personalized service to our customers and claimants despite the exigencies of the environment.

- In 2000, we began the process of both raising our overall rate level in response to an increase in claims cost and improving the effectiveness of our pricing and underwriting process. Both of these efforts will continue for several years as we increase the pricing efficiency of our large book of California renewal business and we introduce sophisticated rating approaches in states that allow greater rating flexibility and pricing accuracy. We made enough progress in 2000 that we are in a good position to grow while most other companies in the industry are only now beginning the process of correcting their rate levels and product designs.

Performance Analysis and 2000 Actions

In early 1999, we, like most other personal lines companies operating in California, assumed the dramatic decline in average payments on bodily injury claims that had occurred in recent years would continue. In anticipation of the continuing trend, we reduced rates by 6.9% in February of 1999. Unfortunately, this trend began reversing in the middle of 1999, with loss costs increasing 4% in 2000. The mismatch between reduced rates and an increase in loss costs resulted in an underwriting loss in 2000.

The primary response to inadequate rate levels is to raise rates. On November 1, 2000, we raised rates in our California personal auto program by 6.4%. Many of the same issues concerning loss costs that adversely affected our California results were at work in our programs in other states. Consequently, we have taken the following rate actions:

2000 & 2001 Approved Rate Increases

State	Date	Increase
Arizona	September 1, 2000	20.0%
Oregon	November 15, 2000	21.0%
California	November 1, 2000	6.4%
Washington	January 6, 2001	25.0%
Nevada	March 15, 2001	12.6%

We will continue to take actions to bring our rate level to what is needed to produce an underwriting profit. In addition to rate increases, we have improved our underwriting process, concentrating on validating the rate classification of current customers and of new business as it is quoted. We also made changes in our pricing structure so that our rates for each customer segment more closely align with their expected loss costs and expenses.

Raising rates and tightening underwriting practices has its costs. Our California auto policy persistency has declined from 96% to 92% currently as customers receiving the largest adjustments search for lower cost alternatives. Once the rate adjustments work through our renewal base, we anticipate policy persistency to return to historical levels.

Rate changes, both increases and decreases, take longer to affect financial results than one might first assume. While we only write six-month policy terms, generally a very positive characteristic, it takes six months from the date we increase rates before every policy is renewed at the new rate level. It takes an additional six months before all of the policies are earning premium at the new rate level. Our point is that personal lines books of business respond gradually to rate changes, making the early identification of trends and timely action very important.

Market Conditions in 2001

The 1990's were an extraordinary period for most companies in the personal automobile insurance business. As increases in loss costs moderated or declined in response to improvements in auto safety, control of health care costs and use of improved claims handling techniques (such as automated estimating techniques, Direct Repair Facilities, etc.), the personal auto industry achieved underwriting profitability. Stronger companies, like 21st Century, achieved far better results. A fact of life is that competitive markets respond quickly to high levels of profitability. Auto insurance companies cut rates extensively in 1997 and 1998. From 1996 to 1999, 21st Century reduced rates by a cumulative 23%. As a consequence, industry results change rapidly from underwriting profit in 1998 to underwriting loss in 2000. While our 2000 Combined Ratio is unacceptable, it is still three points better than the industry.

Personal Auto Industry

Year	Country-wide Personal Auto Total Industry Written Premium*	Country-wide Personal Auto Total Industry Combined Ratio	21st Century Combined Ratio
1996	$107.7	100.1	90.3
1997	$113.6	97.4	82.8
1998	$117.3	99.0	85.4
1999	$118.6	102.6	89.8
2000**	$120.0	108.0	105.0

** In billions.*
*** Industry figures estimated.*
Source: A.M.Best's Aggregates & Averages

The primary impact of competitor actions on 21st Century is on our ability to acquire new customers and increase revenue. When competitors are holding rates constant or decreasing rates, consumers have a lower propensity to shop their insurance on renewal. When competitors are increasing rates and tightening underwriting practices, consumers are more likely to shop their insurance with other companies. Our rates are lower than most competitors due to the efficiency of our operations. When consumers shop, they discover the savings and benefits of becoming a 21st Century customer and we increase our overall revenue.

During 2000, we saw very limited rate activity in California Good Driver (standard and preferred) rates by major, top 10 market share competitors other than ourselves. The top 10 competitors hold a market share of 77% of total personal auto premium. This lack of rate action was unexpected given the general deterioration in results. We expect to see competitor rate activity increase in 2001. As of this writing, GEICO has increased rates by 7.7% and Allstate, USAA, Progressive and Mercury have filed increases with the California Department of Insurance. We do not know what increases will actually be approved or when, but our general view is that the bias in the market has changed from lowering rates and a looser underwriting approach to raising rates and tighter underwriting.

Several direct response companies, most notably GEICO, have reported an increase in the cost and difficulty of acquiring new customers. Internet start-up insurance providers eCoverage and eSurance shut down and multiple on-line company quoting businesses such as InsWeb have encountered challenges. We saw a similar decline in response to advertising in 1999, but did not observe it in 2000 as we scaled back marketing operations and concentrated on adjusting our rate level.

We see the key marketing challenge as expanding the appeal of direct response beyond the traditional price focus of industry advertising. Over 80% of the public still buys through an agent, despite the much higher costs of this approach and the limitations on service availability. Our focus is on creating a clearly superior customer experience at a lower cost than available through any other distribution method or company. Putting this capability in place and communicating it to consumers is our challenge for 2001.

Product & Geography Mix

California personal auto insurance represents 92.8% of our total business. We are the 7th largest company in this market, with a 6.3% market share. The total of all lines in California represents 96.3% of our total gross written premium. (The percentages for California business include the Arizona joint venture operation with AIG.)

We continued our reentry into the California homeowners market, increasing gross written premium from $24.7 million in 1999 to $29.5 million in 2000. We will continue to proceed cautiously as we test rate adequacy and control the distribution of our exposures. We write no earthquake coverage. The mandatory offering of earthquake coverage on our policies is made by GeoVera Insurance Company, a member of the St. Paul Companies. Any policies resulting from the offers are written directly by GeoVera.

We are exploring additional products to offer to our customer base, either on a direct or brokered basis, as a source of future growth. We also see growth potential in further developing the non-California states in which we currently operate as well as expanding into new states.

Financial Condition & Investments

The Company’s financial condition remained strong despite the decline in operating results for the year. Cash flow from operations improved over 1999 and we prepaid our remaining bank debt last September.

During 2000 we upstreamed dividends of $95 million from the insurance subsidiaries to the holding company and reduced our shareholder dividend to preserve capital to support future growth and other strategic actions. At the end of 2000, the $475.6 million statutory surplus of the insurance subsidiaries is adequate to support premium writings easily 30% greater than current levels. Shareholders' equity at the holding company amounted to $720.6 million. Your Company is well capitalized and has the ability to support rapid growth as competitive conditions change.

We continue to maintain our conservative investment philosophy, avoiding potentially risky vehicles such as derivatives. Nontaxable investments in fixed income securities currently make up over 90% of our portfiolio. Our average after-tax investment yield improved to 4.62% in 2000 from 4.34% in 1999. After-tax realized investment losses were $3.0 million in 2000 compared to less than $1.0 million in 1999. Unrealized investment gains improved from an unrealized loss of $63.9 million at the end of 1999 to an unrealized gain of $40.1 million at the end of 2000, a net increase of $104.0 million.

Legal and Legislative

As mentioned in our Fourth Quarter Earnings news release, California SB 1899 took effect January 1, 2001, potentially reviving certain insurance claims arising out of the 1994 Northridge earthquake that previously were barred by the applicable statute of limitations, the policy contract or settlement agreements. 21st Century continues to believe this statute violates federal and state constitutional provisions prohibiting impairment of contracts and supports a legal challenge to the law being undertaken by another insurer and two industry trade groups. However, to mitigate the risk of an adverse determination, the Company has begun adjusting and settling claims made under SB 1899 while reserving its right to assert the unconstitutionality of the law as a defense to any claim or action.

On December 29, 2000, the First California Appellate Court upheld the Department of Insurance's current auto rating regulations when it overturned an unfavorable lower court ruling in the matter of *Spanish Speaking Citizens' Foundation, Inc. vs. Insurance Commissioner Harry Low*. This lawsuit challenged the weighting of territory in determining California auto insurance rates under Proposition 103 requirements. The California Supreme Court has refused to hear an appeal, bringing this case to a positive conclusion for California consumers.

Community Roots

21st Century Insurance was founded in Southern California. The experience we have gained through 42 years of operations in this market, which is unlike any other in the country, has been invaluable. We are closely linked to our communities through both corporate and individual involvement. For example, our employees are among the top United Way donors and we match their generous contributions. 21st Century is a founding member of Impact Capital Corporation, an innovative California organization committed to providing renewable capital for low-income housing and other underserved community needs. We serve our customers by delivering low costs and high service as well as supporting efforts to meet the needs of schools and communities where our customers and employees and their families live and work.

Company Goals

Our financial goals are quite simple: a 96 or better GAAP Combined Ratio and a 15% or greater annual increase in gross written premiums. We did not achieve these goals in 2000 and, while we will make substantial progress, we are not likely to fully achieve them in 2001. Our longer-term view is quite positive. We will have the competitive advantages of a modern, low cost operation, superior customer service and multi-access convenience, plus pricing and underwriting methods that correctly price both new and renewal business.

Sincerely,

ROBERT M. SANDLER
Chairman of the Board

BRUCE W. MARLOW
Vice Chairman of the Board,
President and CEO

Cautionary Statement:

Statements contained in this letter which are not historical facts may be considered forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995 relating to, among other things, the Company's future performance and operations, management's future plans and goals, and business environment changes. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those projected. Such risks and uncertainties include, but are not limited to: the effects of competition and competitors' pricing actions; unanticipated adverse underwriting and claims experience, including revived claims under SB 1899; systems and customer service problems, including potential negative effects of power shortages in California; adverse developments in financial markets or interest rates; and unanticipated results of legislative, regulatory or legal actions, including the inability to obtain approval for rate increases and product changes. For additional information, refer to the Company's public filings including the most recently filed Form 10-K and Form 10-Q.

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2000

Commission File Number 0-6964

FORM 10-K

21ST CENTURY INSURANCE GROUP

(Exact name of registrant as specified in its charter)

CALIFORNIA (State or other jurisdiction of incorporation or organization)	**95-1935264** (I.R.S. Employer Identification number)
6301 Owensmouth Avenue, Woodland Hills, California (Address of principal executive offices)	**91367** (Zip Code)

(818) 704-3700
(Registrant's telephone number, including area code) Web site: www.i21.com

Securities registered pursuant to Section 12 (b) of the Act:

Common Stock, Without Par Value (Title of Class)	**New York Stock Exchange** (Name of each exchange on which registered)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements, incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the average high and low prices for shares of the Company's Common Stock on February 28, 2001, as reported by the New York Stock Exchange, was approximately $460,000,000.

On February 28, 2001, the registrant had outstanding 85,194,341 shares of common stock, without par value, which is the Company's only class of common stock.

DOCUMENT INCORPORATED BY REFERENCE:
Portions of the definitive proxy statement used in connection with the annual meeting of shareholders of the registrant, to be held on June 6, 2001, are incorporated herein by reference into Part III hereof.

PART I

ITEM 1. BUSINESS

General

21st Century Insurance Group is an insurance holding company founded in 1958 and incorporated in California. The term ''Company,'' unless the context requires otherwise, refers to 21st Century Insurance Group and its wholly owned subsidiaries, 21st Century Insurance Company and 21st Century Casualty Company, both of which are incorporated in California as property and casualty insurance companies and licensed in California, Nevada, Oregon and Washington. The common stock of the Company is traded on the New York Stock Exchange under the trading symbol ''TW''. Through several of its subsidiaries, American International Group (''AIG'') currently owns approximately 63% of the Company's outstanding common stock.

The Company is a direct-response underwriter which sells and services private passenger automobile, homeowners and personal umbrella insurance directly to the public without commissioned agents. The Company has gained a reputation for excellent customer service and for being among the most efficient and low cost providers of personal insurance in the markets it serves.

The Company's business began in Los Angeles and historically has been concentrated in Southern California, principally the greater Los Angeles metropolitan areas. In the mid-1980's the Company expanded into the San Diego area and, in the early 1990's, the Northern California area. In August 1996, 21st Century Insurance Company of Arizona (''21st of Arizona'') began writing private passenger automobile insurance in that state. 21st of Arizona is a joint venture between the Company, which owns a 49% interest, and AIG, which owns a 51% interest. In late 1998, the Company began writing automobile insurance in Nevada, Oregon and Washington.

In a strategy intended to complement its auto business and facilitate growth in that line, the Company markets homeowner insurance policies primarily to its automobile customers in California. The Company ceased writing earthquake insurance in 1994. The California requirement that the Company offer earthquake insurance to its homeowner policyholders is satisfied by an arrangement with GeoVera Insurance Company, a member of The St. Paul Companies. GeoVera provides the mandatory earthquake offer on its own policy form.

Limits of Insurance Coverage

The Company offers the following insurance coverages for private passenger automobiles: bodily injury liability; property damage; medical payments; uninsured and underinsured motorist; rental reimbursement; uninsured motorist property damage and collision deductible; towing; comprehensive and collision. Policies are written for a six-month term. Various limits of liability are underwritten with maximum limits of $500,000 per person and $500,000 per accident. The most frequent bodily injury liability limits purchased are $100,000 per person and $300,000 per accident.

The homeowners program utilizes an extended replacement cost policy, thereby limiting the insured's recovery to 150% of the amount specified in the contract for Coverage A — Dwelling and Other Building Structures. Underwriting guidelines provide for a minimum dwelling amount of $65,000 and a maximum dwelling amount of $750,000. Personal liability coverage limits of $100,000, $200,000 and $300,000 are available.

The personal umbrella policy (''PUP'') provides liability coverage with a limit of $1,000,000 in excess of the underlying automobile and homeowners liability coverage. Minimum underlying automobile limits of $100,000 per person and $300,000 per accident are required, while homeowners must have a minimum of $100,000 personal liability coverage. The underlying automobile coverage must be written by the Company.

Marketing

The Company, through its subsidiaries and Arizona affiliate, markets homeowner policies in California and auto policies in California, Arizona, Nevada, Oregon and Washington. Policies are sold directly to customers without utilizing or engaging outside commissioned agents or brokers. In addition to referrals, the Company uses direct mail, print, radio, television, outdoor and Internet advertising to generate sales. In California and Arizona, quotes may be requested 24 hours a day, 7 days a week through a convenient toll-free 800 number. Prospective California policyholders may also obtain an instant auto rate quotation and purchase a policy on the Company's Internet site (*http://www. i21.com*).

Underwriting and Pricing

California business accounted for approximately 98% of the Company's written premium in 2000. The regulatory system in California requires the prior approval of insurance rates and forms. Within the regulatory framework, the Company establishes its automobile and homeowners premium rates based primarily on actuarial analyses of its own historical loss and expense data. This data is compiled and analyzed to establish overall rate levels as well as classification differentials. The Company's rates are established at levels intended to generate underwriting profits and vary for individual policies based on a number of rating characteristics. The primary rating characteristics for automobile policies include, by statute in California, driving record, annual mileage and number of years the driver has been licensed. A number of other ''optional'' rating factors are also permitted and used in California.

The Company is required to offer insurance to any California prospect who meets the statutory definition of a ''Good Driver.'' This definition includes all drivers who have been licensed more than three years and have had no more than one violation point count under criteria contained in the California Vehicle Code. These criteria include a variety of moving violations and certain at-fault accidents.

The Company reviews many of its policies prior to the time of renewal and as changes occur during the policy period. Some mid-term changes may result in premium adjustments, cancellations or non-renewals because of a substantial increase in risk.

Servicing of Business

The Company continues to invest in information technology as an important business strategy. Today, computerized systems provide the information resources, telecommunications and data processing capabilities necessary to manage the Company's business. New technology investments have been focused on making it faster and easier for customers to transact business while ultimately lowering the overall cost per transaction. Using the Company's Internet site, California consumers are now able to receive a quotation, accept the quote and bind a policy, pay their bill, inquire about the status of their policy and billing information, make most common policy changes, submit a first notice of loss on a claim and access a wealth of consumer information. Further enhancements to the web site are planned.

In addition, a new Customer Relationship Management system is being installed that will eventually provide our call center representatives with integrated knowledge of all customer contacts and will enable speedier and even more convenient customer service. During 2000, the Company's systems were modified to allow expanded business hours to coincide with 24x7 call center operation.

Claims

Claims operations include the receipt and analysis of initial loss reports, assignment of legal counsel when necessary, and management of the settlement process. Whenever possible, physical damage claims are handled through the use of Company drive-in claims facilities, vehicle inspection centers and Direct Repair Program (''DRP'') providers. The claims management staff administers the claims settlement process and oversees the work of the legal and adjuster personnel involved in that process. Each claim is carefully analyzed to provide for fair loss payments, compliance with the Company's contractual and regulatory obligations and management of loss adjustment expenses. Liability and property damage claims are handled by specialists in each area.

The Company makes extensive use of its DRP to expedite the repair process. The program involves agreements between the Company and over 130 independent repair facilities. The Company agrees to accept the estimate for damages prepared by the repair facility without requiring each vehicle to be reinspected by staff adjusters. The facilities selected undergo a screening process before being accepted, and the Company maintains an aggressive inspection audit program to assure quality results. The Company's inspection team visits all repair facilities each month and performs a quality control inspection on approximately 40% of all repairable vehicles in this program. The customer benefits by getting the repair process started faster, and by having the repairs guaranteed for as long as the customer owns the vehicle. The Company benefits by not incurring the overhead expense of a larger staff of appraisers and by negotiating repair rates it believes are beneficial. Currently, over 30% of all damage repairs are handled using the DRP method. The Company's policy with respect to vehicle repairs is not to use after market ''crash'' parts.

The Company has established 15 claims Division Service Offices in areas of major customer concentrations. The three Vehicle Inspection Centers, located in Los Angeles and Orange Counties, handle total losses, thefts and vehicles which are not driveable.

The Claims Services Division is responsible for subrogation, medical payment claims and workers' compensation claims arising under the homeowners policies. The Company also maintains a Special Investigations Unit which investigates suspected fraudulent claims. The Company believes its efforts in this area have been responsible for saving several million dollars annually. The Homeowners Division processes all homeowners property claims on a regional basis.

The Company utilizes internal legal staff to handle most aspects of claims litigation. In-house attorneys handle approximately 70% of all lawsuits. Suits directly against the Company and those which may involve a conflict of interest are assigned to outside counsel.

Loss and Loss Adjustment Expense Reserves

The Company establishes a liability at each accounting date for losses and loss adjustment expenses arising from claims, both reported and unreported, which have been incurred but which remain to be paid. Such reserves are estimates, as of a particular date, of the amount the Company will ultimately pay, net of any recoverable salvage and subrogation, for claims incurred as of the accounting date.

The Company establishes case basis reserves based upon various factors, such as the location of the accident, the severity of the injuries and property damage sustained, and the age of the claim.

The Company supplements the case basis reserve estimates with bulk loss reserves which are estimated using actuarial methodologies. These reserves are designed to provide for claims incurred but not reported (''IBNR'') to or recorded by the Company as of the accounting date, changes over time in case reserve estimates and loss adjustment expenses which include estimates of the legal and other costs of settling claims. The actuarial estimates utilize the Company's own historical loss experience and are reviewed each quarter. The effects of inflation are implicitly considered in the actuarial estimates and the Company does not discount its reserves to present value for financial reporting purposes.

Reserve estimates are necessarily subject to the impact of future changes in economic and social conditions. Management believes that, given the inherent variability in any such estimates, the aggregate reserves are within a reasonable and acceptable range of adequacy. The methods of making such estimates and for establishing the resulting reserves are reviewed and updated quarterly with any resulting adjustments reflected in earnings currently.

A rollforward of loss and loss adjustment expense reserves, including the effects of reserve changes, loss payments and reinsurance for each of the three years in the period ended December 31, 2000, is presented in Note 9 of the Notes to Consolidated Financial Statements.

The following table presents the development of loss and loss adjustment expense reserves, net of reinsurance, for the years 1990 through 2000. The top line of the table shows the reserves at the balance sheet date, net of reinsurance recoverables, for each of the years indicated. The upper portion of the table indicates the cumulative amounts paid as of subsequent year-ends with respect to that reserve liability. The lower portion of the table indicates the re-estimated amount of the previously recorded reserves based on experience as of the end of each succeeding year, including cumulative payments made since the end of the respective year. The estimates change as more information becomes known about the frequency and severity of claims for individual years. A redundancy (deficiency) exists when the original reserve estimate is greater (less) than the re-estimated reserves. The deficiencies shown in the 1994 and 1995 columns result from the additional earthquake losses and loss adjustment expenses related to the 1994 Northridge Earthquake recorded subsequent to 1994. In 1994, the impact of the earthquake was to increase the deficiency by $170.65 million; the impact in 1995 was to increase the deficiency by $110.65 million; the redundancy for 1996 was reduced by $70.65 million; the redundancy for 1997 was reduced by $45.9 million; the deficiency for 1998 was increased by $45.9 million; and the deficiency for 1999 was increased by $2.4 million. Excluding the results of the earthquake, the redundancy (deficiency) would have been $57.6 million, $44.4 million and ($42.6) million for 1997, 1998 and 1999, respectively. The deficiency for 1999 primarily resulted from the company's over estimate in 1999 of the beneficial effect on loss costs of laws passed in prior years which limited the rights of uninsured motorists and drunk drivers to collect non-economic damages.

As of December 31, *(Amounts in thousands)*	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	**2000**
Reserves for losses and loss adjustment expenses, net of reinsurance	$525,220	$547,098	$554,034	$574,619	$755,101	$552,320	$489,033	$388,418	$339,815	$243,398	**$266,953**
Paid (cumulative) as of:											
One year later	300,707	320,264	327,634	344,876	519,969	351,985	304,714	251,951	265,135	227,230	
Two years later	391,970	401,019	403,434	423,713	635,861	485,462	395,922	352,594	327,971		
Three years later	420,853	426,412	425,671	443,055	721,445	527,908	454,246	373,841			
Four years later	429,791	433,642	432,086	457,430	745,912	574,260	465,353				
Five years later	431,791	436,522	434,949	460,857	787,262	583,397					
Six years later	432,975	437,365	436,876	461,901	795,331						
Seven years later	433,096	437,758	436,982	462,647							
Eight years later	433,095	437,713	437,125								
Nine years later	433,045	437,876									
Ten years later	432,823										
Reserves re-estimated as of:											
One year later	473,974	473,209	491,048	490,166	715,637	526,730	424,406	392,039	331,119	288,421	
Two years later	449,348	461,343	447,880	465,036	725,098	537,635	467,958	375,674	341,338		
Three years later	442,508	440,198	438,726	453,431	751,302	579,093	465,507	376,692			
Four years later	433,408	437,350	435,128	460,947	790,479	582,013	466,284				
Five years later	432,370	436,929	435,942	462,372	791,377	583,536					
Six years later	432,661	437,600	437,034	461,347	795,037						
Seven years later	433,050	437,706	436,476	462,075							
Eight years later	432,949	437,383	436,738								
Nine years later	432,801	437,603									
Ten years later	432,629										
Redundancy (Deficiency)	$ 92,591	$109,495	$117,296	$112,544	$ (39,936)	$ (31,216)	$ 22,749	$ 11,726	$ (1,523)	$ (45,023)	

Each amount in the preceding table includes the effects of all changes in amounts for prior periods. The table does not present accident year or policy year development data. Conditions and trends that have affected the development of liabilities in the past may not necessarily occur in the future. Therefore, it would not be appropriate to extrapolate future deficiencies or redundancies based on the table.

In the consolidated balance sheet, the reserves for losses and loss adjustment expenses are shown ''gross,'' that is, before reduction for reinsurance. The table which follows presents the development of gross losses and loss adjustment expense reserves for calendar years 1998 through 2000. As in the ten-year table presented net of reinsurance, each amount in the following table includes the effects of all changes in amounts for prior periods. The table does not present accident year or policy year development data, and it would not be appropriate to extrapolate future development based on this table.

(Amounts in thousands)	1998	1999	**2000**
Gross loss and loss adjustment expense reserves,			
December 31,	$382,003	$276,248	**$298,436**
Paid (cumulative) as of:			
One year later	296,166	255,680	
Two years later	366,077		
Gross liability re-estimated as of:			
End of year	382,003	276,248	**298,436**
One year later	371,774	327,974	
Two years later	383,103		
Gross cumulative redundancy (deficiency)	(1,100)	(51,726)	

Competition

The personal automobile insurance market is highly competitive and is comprised of a large number of well-capitalized companies, many of which operate in a number of states and offer a wider-variety of products than the Company. Several of these competitors are larger and have greater financial resources than the Company. Based on direct written premium for 1999 (latest publicly available information), the Company is the seventh largest writer of private passenger automobile insurance in California. The Company's main competition comes from other major writers which concentrate on the good driver market.

The Company's marketing and underwriting strategy is to appeal to careful and responsible drivers who deal directly with the Company in order to save significant amounts of money on their insurance premiums. By selling its products directly to the insured, the Company has eliminated agent and broker commissions. Consequently, the Company consistently operates with one of the lowest underwriting expense ratios in the industry and is able to maintain its rates among the lowest in the markets it serves while still providing convenient, high quality service to its customers. As a result, the Company has been able to achieve profitable growth and to maintain policy renewal rates which it believes are significantly above industry averages.

Reinsurance

A reinsurance transaction occurs when an insurer transfers or cedes a portion of its exposure to a reinsurer for a premium. The reinsurance cession does not legally discharge the insurer from its liability for a covered loss, but provides for reimbursement from the reinsurer for the ceded portion of the risk. The Company periodically monitors the continuing appropriateness of its reinsurance arrangements to determine that its reinsurers are financially sound, able to meet their obligations under the agreements and are competitively priced.

The Company's insurance subsidiaries entered into a five-year (1995 to 1999) quota share reinsurance agreement with an AIG affiliate covering all ongoing lines of business. Under this contract, which attaches to the Company's retained risks net of all other reinsurance, 10% of each subsidiary's premiums earned and losses and loss adjustment expenses incurred in connection with policies incepted during the period January 1, 1995 through December 31, 1999 were ceded. The AIG affiliate has the option to renew the agreement for four years at declining coverage percentages of 8%, 6%, 4% and 2% for each of the subsequent years, respectively, and elected to do so in 2000 and 2001 at 8% and 6%, respectively. A ceding commission of 10.8% was received by the insurance subsidiaries for 1995 and, thereafter, a commission was received at a rate equal to the prior year's gross statutory underwriting expense ratio. The ceding commission rates were 9.40%, 10.42% and 13.57% for 1998, 1999 and 2000, respectively.

Between mid-1996 and December 1999, the Company found it more economical to maintain 100% quota share reinsurance arrangements for its homeowners line rather than purchasing alternative reinsurance coverage for its exposure to catastrophes, such as fire following an earthquake. Beginning January 1, 2000, the previous homeowner reinsurance programs were cancelled and the Company entered into a catastrophe excess of loss reinsurance program. These reinsurance arrangements are discussed in more detail in Note 11 of the Notes to Consolidated Financial Statements.

The Company has a quota share reinsurance treaty for PUP business whereby 60% of premiums and losses are ceded to reinsurers. After the effect of the 8% quota share treaty with AIG, the Company effectively retained 36.8% of the risk for this line for the year ended December 31, 2000.

Regulation

Insurance companies are subject to regulation and supervision by the insurance departments of the various states. The insurance departments have broad regulatory, supervisory and administrative powers, such as:

- Licensing of insurance companies and agents
- Prior approval, in California and some other jurisdictions, of rates, rules and forms
- Standards of solvency
- Nature of, and limitations on, insurance company investments
- Periodic examinations of the affairs of insurers
- Annual and other periodic reports of the financial condition and results of operations of insurers
- Establishment of accounting rules
- Issuance of securities by insurers
- Payment of dividends

Currently, the CDOI has primary regulatory jurisdiction over the Company. In general, the current regulatory requirements in the other states in which the Company is a licensed insurer are no more stringent than in California.

Changes in state insurance laws or regulations can affect the revenues and expenses of the Company. In 2000, no new laws were enacted by any state in which the Company does business that are expected to have a material impact on the auto insurance industry.

The Company anticipates that during 2001 the California Insurance Commissioner will propose changes to the rating regulations regarding prior approval of rates. There can be no assurance that adoption of such changes would not be detrimental to the Company's future operating results.

California SB 1899 took effect January 1, 2001, potentially reviving certain insurance claims arising out of the 1994 Northridge Earthquake that previously were barred by the applicable statute of limitations, the policy contract or settlement agreements. The Company continues to believe this statute violates federal and state constitutional provisions prohibiting impairment of contracts and supports a legal challenge to the law being undertaken by another insurer and two industry trade groups. However, to mitigate the risk of an adverse determination, the Company has begun adjusting and settling claims made under SB 1899 while reserving its right to assert the unconstitutionality of the law as a defense to any claim or action. As of February 28, 2001, approximately one percent of previously reported Northridge Earthquake claims have been presented for reconsideration under SB 1899. At this time, the Company cannot predict how many claims ultimately may require adjustment under the statute. The Company incurred over $1.1 billion in earthquake related losses and expenses, closing 94% of the total 46,000 claims within the first year and 98.6% without litigation.

Holding Company Act

The Company's subsidiaries are also subject to regulation by the CDOI pursuant to the provisions of the California Insurance Holding Company System Regulatory Act (the "Holding Company Act"). Certain transactions defined to be of an "extraordinary" nature may not be effected without the prior approval of the CDOI. Such transactions include, but are not limited to, sales, purchases, exchanges, loans and extensions of credit, and investments made within the immediately preceding 12 months involving in the net aggregate, more than the lesser of (i) 3% of the Company's admitted assets or (ii) 25% of the policyholder's surplus as of the preceding December 31. An extraordinary transaction also includes a dividend which, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (i) 10% of the insurance company's policyholders' surplus as of the preceding December 31 or (ii) the insurance company's net income for the preceding calendar year. The California code further provides that property and casualty insurers may pay dividends only from earned surplus. The Holding Company Act generally restricts the ability of any one person to acquire more than 10% of the Company's voting securities without prior regulatory approval.

Non-Voluntary Business

Automobile liability insurers in California are required to participate in the California Automobile Assigned Risk Plan ("CAARP"). Drivers whose driving records or other relevant characteristics make them difficult to insure in the voluntary market may be eligible to apply to CAARP for placement as "assigned risks." The number of assignments for each insurer is based on the total applications received by the plan and the insurer's market share. As of December 31, 2000, assigned risk vehicles insured had decreased to 1,530 from

2,929 at the end of 1999. This is the continued result of assigned risk participants finding affordable coverage in the voluntary market or drivers who dropped out of the program after initially responding to 1997 legislation requiring proof of insurance for vehicle registration renewals. The CAARP assignments have historically produced underwriting losses. As of December 31, 2000, this business represented less than 1% of the Company's total gross premiums written.

Insurers offering homeowners insurance in California are required to participate in the California FAIR Plan ("FAIR Plan"). FAIR Plan is a state administered pool of difficult to insure homeowners. Each participating insurer is allocated a percentage of the total premiums written and losses incurred by the pool according to its share of total homeowners direct premiums written in the state. The Company's FAIR Plan underwriting results for 2000 and 1999 were immaterial.

Employees

The Company had 2,501 full and part-time employees at December 31, 2000. The Company provides medical, pension and 401(k) savings plan benefits to eligible employees according to the provisions of each plan. Employee turnover is generally low, and the Company believes that its relationship with its employees is excellent.

ITEM 2. PROPERTIES

The Company leases approximately 406,000 rentable square feet of office space for its headquarters facilities, which are located in Woodland Hills, California. The lease term expires November 2014, and the lease may be renewed for two consecutive five-year periods.

The Company also leases office space in 15 other locations of which 13 locations are in California. The Company anticipates no difficulty in extending these leases or obtaining comparable office facilities in suitable locations.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company is named as a defendant in lawsuits related to claim issues. Some of the actions request exemplary or punitive damages. The actions are vigorously defended unless a reasonable settlement appears appropriate.

Currently included in this class of litigation are certain actions that arose out of the Northridge Earthquake. Most of these actions seek to resolve claims involving disputed damages or to contest the applicability of the statute of limitations, or to pursue claims revived by SB 1899. The resolution of such litigation has an element of uncertainty and although the impact on future results of operations cannot be estimated, the Company does not believe that the ultimate outcome of any pending action will have a material effect on its consolidated financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

(a) Price Range of Common Stock

The stock is currently traded on the New York Stock Exchange under the trading symbol "TW." The following table sets forth the high and low bid prices for the common stock for the indicated periods.

2000	High	Low
Fourth Quarter	**17⅛**	**13⅛**
Third Quarter	**17⅛**	**14**
Second Quarter	**22 15/16**	**15½**
First Quarter	**21½**	**15 9/16**
1999		
Fourth Quarter	20¼	18 11/16
Third Quarter	20	18⅜
Second Quarter	18⅞	16
First Quarter	23 9/16	16¼

(b) Holders of Common Stock

The approximate number of record holders of common stock on December 31, 2000, was 723.

(c) Dividends

The Company has paid quarterly cash dividends on its common stock since the fourth quarter of 1996. Dividends of $0.05 per share were paid in the first three quarters of 1997 and then doubled to $0.10 per share for the fourth quarter of 1997 and the first quarter of 1998. Quarterly dividends increased to $0.16 per share from the second quarter of 1998 through the second quarter of 2000. Dividends in the third and fourth quarters of 2000 dividends were $0.08 per share.

The Company's Board of Directors considers a variety of factors in determining the timing and amount of dividends. Accordingly, the Company's past history of dividend payments does not assure that the future dividends will be paid. The parent company is dependent upon dividends from its subsidiaries to pay dividends to its stockholders. Based on earned surplus as of December 31, 2000, the Company believes it will not require regulatory approval in 2001 to upstream dividends from its subsidiaries.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below as of the end of and for each of the years in the five-year period ended December 31, 2000, are derived from the Company's consolidated financial statements. The consolidated financial statements as of December 31, 2000 and 1999, and for each of the years in the three-year period ended December 31, 2000, are included elsewhere in this Form 10-K. For further discussion of earnings per share, see Note 3 of the Notes to Consolidated Financial Statements.

All dollar amounts set forth in the following tables are in thousands, except per share data.

Years Ended December 31,	**2000**	1999	1998	1997	1996
Operations Data:					
Net premiums earned	**$825,486**	$770,423	$772,864	$785,989	$856,628
Total Revenues	**869,762**	832,681	870,650	863,523	937,093
Per Share Data:					
Basic	**$ 0.15**	$ 1.00	$ 1.36	$ 1.76	$ 1.05
Diluted	**$ 0.15**	$ 1.00	$ 1.19	$ 1.37	$ 0.92
Dividends paid per common share	**$ 0.48**	$ 0.64	$ 0.58	$ 0.25	$ 0.05
Loss and LAE ratio	**90.8%**	78.6%	81.0%	77.3%	85.8%
Expense ratio — GAAP	**14.4**	12.9	10.2	9.4	9.3
Combined ratio — GAAP	**105.2%**	91.5%	91.2%	86.7%	95.1%

In 1999, 1998 and 1997, the Company's financial statements include the effects of certain non-recurring charges of $9.2 million, $7.7 million and $1.5 million, respectively. These charges represent a non-recurring regulatory settlement with the CDOI in 1999, accelerated amortization of restricted stock grants in 1998 and Year 2000 remediation costs in 1999, 1998 and 1997. Provisions for earthquake losses and expenses were $3.5 million in 2000, $2.4 million in 1999, $40 million in 1998, $24.8 million in 1997 and $40 million in 1996. On an after-tax basis, the foregoing charges reduced basic earnings per share by $0.03, $0.09, $0.46, $0.33 and $0.51 for 2000, 1999, 1998, 1997 and 1996, respectively.

December 31,	**2000**	1999	1998	1997	1996
Balance Sheet Data:					
Total investments	**$ 913,088**	$ 943,545	$1,068,621	$1,084,453	$1,064,628
Total assets	**1,338,075**	1,379,332	1,593,156	1,482,454	1,513,755
Unpaid losses and loss adjustment expenses	**298,436**	276,248	382,003	437,887	543,529
Unearned premiums	**236,519**	232,702	233,689	233,402	231,141
Total liabilities	**617,514**	658,495	807,554	899,493	1,026,048
Stockholders' equity	**720,561**	720,837	785,602	582,961	487,707
Book value per common share	**$ 8.46**	$ 8.39	$ 8.97	$ 6.93	$ 5.10

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition

The following table summarizes certain information pertaining to the Company's financial condition as of or for the year ended December 31,

(Amounts in thousands, except per share data)	**2000**	1999	1998
Operating cash flow	**$ 56,452**	$ 28,827	$ 85,229
Book value per share	**$ 8.46**	$ 8.39	$ 8.97
Statutory surplus of insurance subsidiaries	**$475,638**	$581,440	$600,654
Stockholders' equity — GAAP	**$720,561**	$720,837	$785,602
Net written premiums to statutory surplus ratio	**1.7:1**	1.3:1	1.3:1
A.M. Best financial rating	**A+**	A	A−
S&P financial rating	**A+**	A+	A+

The Company's financial condition remained strong at the end of 2000 despite the decline in operating results. The Company was able to take advantage of market conditions enabling it to economically prepay its bank debt in the third quarter of 2000. Cash flow from operations improved over 1999. At the end of 2000, statutory surplus of the insurance subsidiaries is adequate to support annual premium writings at least 30% greater than current levels. The decrease in statutory surplus since 1998 is primarily due to dividends upstreamed to the holding company and lower operating results in 1999 and 2000.

Underwriting Results

The tables presented in Notes 17 and 18 of the Notes to Consolidated Financial Statements summarize the Company's unaudited quarterly results of operations for each of the two years in the period ended December 31, 2000, and the results of operations by line of business for each of the three years then ended. The following discussion of underwriting results by line of business should be read in conjunction with the information presented in those tables.

Personal Auto. Automobile insurance is the primary line of business written by the Company and historically has been profitable. The majority of the Company's insured autos are located in Southern California. The Company continues to expand its coverage throughout the West by marketing its business in Northern California, San Diego county, Nevada, Oregon and Washington.

Vehicles in force were 1,166,971, 1,184,797 and 1,130,029 as of December 31, 2000, 1999 and 1998, respectively. The decrease in 2000 resulted from actions taken to improve underwriting results (discussed further below). The increase in vehicles in force in 1999 was mainly from two factors: it was the first full year of operations in Nevada, Oregon and Washington, and California rates were reduced 6.85% early in 1999 in a move that anticipated a continuation of favorable loss trends that failed to materialize. The Company's retention rate was approximately 95% for 2000 and 96% for both 1999 and 1998.

Gross premiums written were $878.2 million in 2000, $853 million in 1999 and $858.3 million in 1998. The increase in 2000 was due to rate increases that more than offset the decline in the number of insured vehicles. The decrease in 1999 was caused mainly by rate decreases of 6.85% effective February 15, 1999 and 3.2% effective January 1, 1998, which more than offset the increase in the number of insured vehicles.

Net premiums earned were $802.7 million in 2000, $769.2 million in 1999 and $772.3 million in 1998. The increase in 2000 is greater than the proportional increase in the corresponding gross premiums written because of the decrease from 10% to 8% in the quota share reinsurance arrangement with AIG. The decrease in 1999 follows the corresponding decrease in gross premiums written.

Underwriting results were a loss of $40 million in 2000 compared to underwriting profits of $78.3 million in 1999 and $112.7 million in 1998. The Company had reduced its California rates by more than 25% from 1996 to 1999, and the rate decreases in 1998 and 1999 in particular had anticipated the continuation of favorable loss trends that failed to materialize. The resultant underpricing caused the loss and LAE ratio to grow steadily from 74.9% in 1998 to 90.8% for 2000, with the higher-than-anticipated losses first becoming evident in the third quarter of 1999. Corrective measures taken in 2000 included increasing auto rates by 6.4% in California, 20% in Arizona, 21% in Oregon and 25% in Washington, with a 12.6% rate increase still pending in Nevada. An additional rate increase was filed for in California subsequent to December 31, 2000.

The underwriting expense ratio for the auto line of business was 14.2% in 2000, 12.3% in 1999 and 10.5% in 1998. The increase in the ratio for 2000 was mainly caused by increases in occupancy costs, data processing and depreciation expense that more than offset the decrease in advertising expense. The increase in the ratio for 1999 primarily resulted from the rate decrease taken in February 1999 and increased advertising expense.

Other Personal Lines. Policies in force were 87,112, 68,625 and 15,541 as of December 31, 2000, 1999 and 1998, respectively. The increase in 2000 was caused mainly by having twelve months of new sales of homeowners policies, which resumed in September 1999. The change from 1998 to 1999 was principally due the effects of a 7.5% rate decrease taken in July 1999 and a return to more normal attrition rates following the resumption of new sales. In addition, the ratio of PUP policies to vehicles in force increased slightly from 1998 to 2000.

Gross premiums written were $32.5 million in 2000, $27.5 million in 1999 and $27.3 million in 1998. The increase in 2000 was due to inclusion of new policy sales in the homeowners line for a full year since they resumed in September of 1999. Net premiums earned and underwriting results for 1999 and 1998 are not comparable to 2000 because of the termination effective January 1, 2000, of the 100% quota share reinsurance arrangements that previously had been in place since mid 1996.

Earthquake. Aside from an insignificant amount of premium assumed from the California FAIR Plan prior to inception of the California Earthquake Authority in 1998, the Company has not written any earthquake coverage since 1994 but continues to be exposed to possible adverse development stemming from the 1994 Northridge Earthquake. Earthquake losses and expenses totaled $3.5 million in 2000, $2.4 million in 1999 and $40 million in 1998. As noted under *Item 1 — Business*, earthquake losses and loss adjustment expenses may be adversely impacted in 2001 and perhaps future years by SB 1899 and the ultimate resolution of certain earthquake claims currently in litigation.

Investment Income

Total pre-tax investment income, excluding equity in the net loss of 21st of Arizona and before deducting investment expenses, was $50.7 million in 2000 compared to $63.6 million in 1999 and $76.0 million in 1998. Average invested assets decreased 14.6% in 2000 compared to an increase of 0.4% in 1999 and 5.4% in 1998. Average invested assets decreased in 2000 compared to 1999 primarily due to the net sale of investments to cover: the payoff of the bank loan of $67.5 million; acquisitions of property and equipment, and dividends to stockholders. The increase in invested assets in 1998 was primarily due to $145.6 million received from the exercise of AIG's common stock warrants in the third quarter of 1998. The average annual pre-tax yield on invested assets was 5.15% in 2000, 5.52% in 1999 and 6.62% in 1998. The average annual after-tax yield on invested assets was 4.62% in 2000, 4.34% in 1999 and 4.35% in 1998.

Net realized losses on the sale of investments were $4.6 million in 2000 and $0.3 million in 1999 compared to net capital gains of $22.6 million for 1998. The 1998 increase in realized gains is primarily due to the Company's decision to begin switching its investment portfolio from taxable to non-taxable securities during 1998 in anticipation of fully utilizing its remaining net operating loss carryforward and selling in a favorable bond market. At December 31, 2000, $831.4 million of the Company's total investments at fair value were invested in tax-exempt bonds with the balance, representing 9.7% of the portfolio, invested in taxable securities compared to 14.4% at December 31, 1999.

As of December 31, 2000, the Company had a pre-tax net unrealized gain on fixed maturity investments of $3.7 million compared to a net unrealized loss of $62.8 million in 1999 and a net unrealized gain of $34.9 million in 1998. Interest rates fell in 2000 and 1998, which increased the fair value of the bond portfolio in those years. Conversely, interest rates rose in 1999, which decreased the fair value of the bond portfolio

Liquidity and Capital Resources

Premiums and investment income represent the Company's major sources of cash, while loss and loss adjustment expense payments are the most significant cash out-flows. The Company continually monitors loss payments to provide projections of future cash requirements. Additional cash requirements include the cost of investing in new technology, dividends to stockholders and, in 2000, the payoff of the bank loan of $67.5 million. Funds required by the Company to pay dividends are provided by the insurance subsidiaries. The ability of the insurance subsidiaries to pay dividends to the parent company is regulated by state law. Based upon 2000 operating results and earned surplus as of December 31, 2000, the Company believes it will not require regulatory approval in 2001 for any extraordinary dividends.

In 1997, the Company embarked on a major project to upgrade its technological infrastructure and to conform certain of its operational procedures to ''industry best practices.'' Although the ultimate cost of this project is expected to be about $100 million to be paid through the end of 2001, management believes cash flow from operations as well as expected improvements in operational efficiencies will be more than adequate to fund the project's implementation which is expected to be completed over the next several years.

During the second quarter of 1999, the Company's Board of Directors authorized and spent $50 million to purchase shares of the Company's common stock. As of April 19, 2000, 2,632,084 shares had been repurchased.

Risk-Based Capital

The National Association of Insurance Commissioners requires property and casualty insurance companies to calculate and report information under a Risk-Based Capital (''RBC'') formula in their Annual Statements. The RBC requirements are intended to assist regulators in identifying inadequately capitalized companies. The RBC calculation is based on the type and mix of risks inherent in the Company's business and includes components for underwriting, asset, interest rate and other risks. To the extent that a subsidiary's surplus fell below prescribed levels, it would be the parent company's intention to infuse necessary capital to support that entity. The Company's insurance subsidiaries exceeded their RBC statutory surplus standards by a considerable margin as of December 31, 2000.

Forward-Looking Statements

The Company's management has made in this report, and from time to time may make in its public filings, press releases, and oral presentations and discussions, forward-looking statements concerning the Company's operations, economic performance and financial condition. Forward-looking statements include, among other things, discussions concerning the Company's potential, expectations, beliefs, estimates, forecasts, projections and assumptions. Forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those anticipated by forward-looking statements due to a number of important factors including, but not limited to, those discussed elsewhere in this report and in the Company's other public communications, as well as the following: (a) the intensity of competition from other companies in the insurance industry; (b) the Company's experience with respect to persistency, underwriting and claims experience including revived claims under SB1899; (c) the Company's ability to distribute and administer competitive services in a timely, cost-effective manner; (d) the potential negative effect of power shortages in California; (e) the Company's visibility in the marketplace and its financial and claims-paying ratings; (f) the inability to obtain regulatory approval for rate increases and product changes; (g) the effect of changes in laws and regulations affecting the Company's business, including changes in tax laws affecting insurance products; (h) market risks related to interest rates; (i) the Company's ability to develop and deploy information technology and management information systems to support strategic goals while continuing to control costs and expenses; (j) the costs of defending litigation and the risk of unanticipated material adverse outcomes in such litigation; (k) changes in accounting and reporting practices; and (l) the Company's access to adequate financing to support its future business. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and interest rates. In addition to market risk, the Company is exposed to other risks, including the credit risk related to its financial instruments and the underlying insurance risk related to its core business. The first column in the following table shows the financial statement carrying values of the Company's financial instruments. The Company's investment portfolio is carried at fair value. The second column shows the effect on current carrying values and estimated fair values assuming a 100 basis point increase in market interest rates and a 10% decline in equity prices. The following sensitivity analysis summarizes only the exposure to market risk as of December 31, 2000.

(Amounts in millions)	*Carrying Value*	*Estimated Fair Value at Adjusted Market Rates/Prices as Indicated Below*
Interest Rate Risk:*		
Fixed Maturities Available for Sale	$912.7	$844.3
Equity Price Risk:**		
Marketable Equity Securities	0.4	0.4

* *Adjusted interest rates assume a 100 basis point increase in market rates at December 31, 2000.*

** *Adjusted equity prices assume a 10 percent decline in values at December 31, 2000.*

Because the Company historically has generated an underwriting profit, its cash flow from operations and short-term cash position generally is more than sufficient to meet its obligations for claim payments, which by the nature of the personal automobile insurance business tend to have an average duration of less than a year. As a result, the Company generally has the ability to hold its investments to maturity, and it has been unnecessary for the Company to employ elaborate market risk management techniques involving complicated asset and liability duration matching or hedging strategies. For all its financial assets and liabilities, the Company seeks to maintain reasonable average durations, consistent with the maximization of income without sacrificing investment quality and providing for liquidity and diversification. Financial instruments are not used for trading purposes.

The sensitivity analysis provides only a limited, point-in-time view of the market risk sensitivity of the Company's financial instruments. The actual impact of market interest rate and price changes on the financial instruments may differ significantly from those shown in the analysis. This analysis is further limited as it does not consider any actions the Company could take in response to actual and/or anticipated changes in interest rates and equity prices.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT AUDITORS

STOCKHOLDERS AND BOARD OF DIRECTORS
21ST CENTURY INSURANCE GROUP

We have audited the accompanying consolidated balance sheets of 21st Century Insurance Group and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of 21st Century Insurance Group and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst + Young LLP

Los Angeles, California
January 26, 2001

21ST CENTURY INSURANCE GROUP
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data) *December 31,*	**2000**	1999
Assets		
Investments, available-for-sale, at fair value:		
Fixed maturities	**$ 912,655**	$ 942,982
Equity securities	**433**	563
Total investments — Note 4	**913,088**	943,545
Cash and cash equivalents	**7,240**	45,034
Accrued investment income	**12,569**	15,403
Premiums receivable	**78,983**	70,796
Reinsurance receivables and recoverables	**50,075**	56,616
Prepaid reinsurance premiums	**20,300**	32,212
Deferred income taxes — Note 5	**72,434**	91,251
Deferred policy acquisition costs — Note 6	**22,387**	22,156
Property and equipment, net of accumulated depreciation — Note 7	**138,062**	84,455
Other assets	**22,937**	17,864
Total assets	**$1,338,075**	$1,379,332
Liabilities and stockholders' equity		
Unpaid losses and loss adjustment expenses — Note 9	**$ 298,436**	$ 276,248
Unearned premiums	**236,519**	232,702
Bank loan payable — Note 10	**—**	67,500
Claims checks payable	**35,982**	31,912
Reinsurance payable	**15,989**	22,311
Other liabilities	**30,588**	27,822
Total liabilities	**617,514**	658,495
Commitments and contingencies — Notes 12 and 15		
Stockholders' equity — Note 13		
Preferred stock, par value $1.00 per share; authorized 500,000 shares, none outstanding	**—**	—
Series A convertible preferred stock, par value $1.00 per share, stated value $1,000 per share; authorized 376,126 shares, none outstanding	**—**	—
Common stock, without par value; authorized 110,000,000 shares, outstanding 85,145,817 in 2000 and 85,918,680 in 1999	**415,064**	429,623
Retained earnings	**303,714**	331,733
Accumulated other comprehensive income (loss) — Note 4	**1,783**	(40,519)
Total stockholders' equity	**720,561**	720,837
Total liabilities and stockholders' equity	**$1,338,075**	$1,379,332

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data) *Years Ended December 31,*	**2000**	1999	1998
Revenues			
Net premiums earned — Note 11	**$825,486**	$770,423	$772,864
Net investment income — Note 4	**49,286**	62,668	75,146
Realized investment gains (losses) — Note 4	**(5,010)**	(410)	22,640
	869,762	832,681	870,650
Losses and expenses			
Net losses and loss adjustment expenses — Note 9	**749,388**	605,064	626,379
Policy acquisition costs — Note 6	**91,386**	80,514	57,523
Other operating expenses	**27,180**	18,856	21,100
Interest and fees expense — Note 10	**2,901**	7,020	10,278
	870,855	711,454	715,280
Income (loss) before federal income taxes	**(1,093)**	121,227	155,370
Federal income taxes (benefit) — Note 5	**(14,038)**	33,699	54,298
Net income	**$ 12,945**	$ 87,528	$101,072
Earnings per common share — Note 3			
Basic	**$ 0.15**	$ 1.00	$ 1.36
Diluted	**$ 0.15**	$ 1.00	$ 1.19

See accompanying notes to financial statements.

21ST CENTURY INSURANCE GROUP

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands, except per share data) Years Ended December 31, 2000, 1999 and 1998	*Convertible Preferred Stock*	*Common Stock*	*Retained Earnings*	*Accumulated Other Comprehensive Income (loss)*	*Total*
Balance — January 1, 1998	$ 224,950	$ 87,230	$250,483	$ 20,298	$582,961
Comprehensive income			101,072 (1)	3,089 (2)	104,161
Cash dividends paid on common stock ($0.58 per share)			(41,485)		(41,485)
Cash dividends paid on preferred stock			(10,123)		(10,123)
Effects of conversion of preferred stock and exercise of common stock warrants	(224,950)	370,550			145,600
Other		4,488			4,488
Balance — December 31, 1998	—	462,268	299,947	23,387	785,602
Comprehensive income			87,528 (1)	(63,906) (2)	23,622
Cash dividends paid on common stock ($0.64 per share)			(55,742)		(55,742)
Stock repurchased		(33,285)			(33,285)
Other		640			640
Balance — December 31, 1999	—	429,623	331,733	(40,519)	720,837
Comprehensive income			12,945 (1)	42,302 (2)	55,247
Cash dividend paid on common stock ($0.48 per share)			(40,964)		(40,964)
Stock repurchased		(16,598)			(16,598)
Other		2,039			2,039
Balance — December 31, 2000	$ —	$415,064	$303,714	$ 1,783	$720,561

(1) Net income for the year

(2) Change in accumulated other comprehensive income.

See accompanying notes to financial statements.

21ST CENTURY INSURANCE GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands) *Years Ended December 31,*	**2000**	1999	1998
Operating activities:			
Net income	**$ 12,945**	$ 87,528	$ 101,072
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for depreciation and amortization	**14,605**	13,029	10,179
Amortization of restricted stock grants	**180**	—	2,027
Provision (benefit) for deferred income taxes	**(3,961)**	17,598	50,884
Realized (gains) losses on sale of investments	**5,010**	410	(22,640)
Federal income taxes	**(6,698)**	10,932	(10,658)
Reinsurance balances	**12,131**	11,267	5,073
Unpaid losses and loss adjustment expenses	**22,188**	(105,755)	(55,884)
Unearned premiums	**3,817**	(987)	287
Claims checks payable	**4,070**	(2,399)	(1,258)
Other assets	**(15,634)**	(5,953)	(2,880)
Other liabilities	**7,799**	3,157	9,027
Net cash provided by operating activities	**56,452**	28,827	85,229
Investing activities:			
Investments available-for-sale:			
Purchases	**(208,957)**	(771,769)	(848,131)
Calls or maturities	**2,809**	7,890	23,248
Sales	**298,044**	789,590	867,441
Net purchases of property and equipment	**(62,940)**	(43,974)	(42,651)
Net cash provided by (used in) investing activities	**28,956**	(18,263)	(93)
Financing activities:			
Common stock repurchased	**(16,598)**	(33,285)	—
Proceeds from the exercise of stock options	**1,861**	641	2,460
Proceeds from exercise of common stock warrants	**—**	—	145,600
Bank loan principal repayment	**(67,500)**	(45,000)	(45,000)
Dividends paid	**(40,965)**	(55,742)	(51,608)
Net cash provided by (used in) financing activities	**(123,202)**	(133,386)	51,452
Net increase (decrease) in cash	**(37,794)**	(122,822)	136,588
Cash and cash equivalents, beginning of year	**45,034**	167,856	31,268
Cash and cash equivalents, end of year	**$ 7,240**	$ 45,034	$ 167,856

See accompanying notes to financial statements.

NOTE 1. DESCRIPTION OF BUSINESS

21st Century Insurance Group, through its wholly owned subsidiaries, 21st Century Insurance Company and 21st Century Casualty Company (collectively, the ''Company''), is engaged in the sale of private passenger automobile insurance policies in California, Nevada, Oregon and Washington and homeowners and personal umbrella insurance policies in California. At this time, almost all of the Company's business is concentrated in California. The Company also provides private passenger automobile insurance in Arizona through a joint venture with American International Group, Inc. (''AIG''), which owned a majority of the Company's outstanding common stock at December 31, 2000.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Presentation
The accompanying consolidated financial statements include the accounts and operations of the Company. All material intercompany accounts and transactions have been eliminated. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (''GAAP'') which differ from statutory accounting practices (''SAP'') prescribed or permitted by insurance regulatory authorities. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Investments
The Company classifies its investment portfolio as available-for-sale and carries it at fair value with unrealized gains and losses, net of any tax effect, reported as accumulated other comprehensive income (loss) as a separate component of stockholders' equity.

Fair values for fixed maturity and equity securities are based on quoted market prices. The cost of investment securities sold is determined by the specific identification method.

The Company's 49% interest in 21st Century Insurance Company of Arizona (''21st of Arizona''), which is a joint venture between the Company and AIG and which began operations in August 1996, has a carrying value of $4,604,000 at December 31, 2000, and is included in other assets in the consolidated balance sheet. The Company's equity in the net loss of this venture amounted to $1,060,000, $451,000 and $373,000 in 2000, 1999 and 1998, respectively, and is included in investment income in the consolidated statements of income. See Note 4 of Notes to Consolidated Financial Statements.

Cash and Cash Equivalents
Cash and cash equivalents include cash and short-term investments in demand deposits having a maturity of three months or less at the date of purchase.

Recognition of Revenues
Insurance premiums are recognized as revenue pro rata over the terms of the policies. The unearned portion is included in the balance sheet as a liability for unearned premiums.

Losses and Loss Adjustment Expenses
The estimated liabilities for losses and loss adjustment expenses include the accumulation of estimates of losses for claims reported prior to the balance sheet dates, estimates (based

upon actuarial analysis of historical data) of losses for claims incurred but not reported and estimates of expenses for investigating and adjusting all incurred and unadjusted claims. Amounts reported are estimates of the ultimate costs of settlement, net of estimated salvage and subrogation, which are necessarily subject to the outcome of future events including the effects of changes in economic and social conditions. Management believes that, given the inherent variability in any such estimates, the aggregate reserves are within a reasonable and acceptable range of adequacy. The methods of making such estimates and for establishing the resulting reserves are reviewed and updated quarterly and any adjustments resulting therefrom are reflected in current earnings.

Reinsurance
In the normal course of business, the Company seeks to reduce its exposure to losses that may arise from catastrophes and to reduce its overall risk levels by obtaining reinsurance from other insurance enterprises or reinsurers. Reinsurance premiums and reserves on reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Amounts applicable to ceded unearned premiums, ceded loss payments and ceded claim liabilities are reported as assets in the accompanying balance sheets. The Company believes that the fair value of its reinsurance recoverables approximates their carrying amounts.

Policy Acquisition Costs
Policy acquisition costs, principally direct and indirect costs related to production of business, are deferred and amortized to expense as the related premiums are earned.

Income Taxes
Deferred income tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws.

Reclassifications
Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 3. EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share:

(Amounts in thousands, except per share data) *Years Ended December 31,*	**2000**	1999	1998
Numerator:			
Net income	**$12,945**	$87,528	$101,072
Preferred stock dividends	**—**	—	(10,123)
Numerator for basic earnings per share:			
Income available to common stockholders	**12,945**	87,528	90,949
Effect of dilutive securities:			
Dividends on convertible preferred stock	**—**	—	10,123
Numerator for diluted earnings per share:			
Income available to common stockholders after assumed conversions	**$12,945**	$87,528	$101,072
Denominator:			
Denominator for basic earnings per share:			
Weighted-average shares outstanding	**85,186**	87,145	66,976
Effect of dilutive securities:			
Restricted stock grants	**176**	49	79
Employee stock options	**35**	59	315
Warrants	**—**	—	6,146
Convertible preferred stock	**—**	—	11,368
	211	108	17,908
Denominator for diluted earnings per share:			
Adjusted weighted-average shares outstanding	**85,397**	87,253	84,884
Basic earnings per common share	**$ 0.15**	$ 1.00	$ 1.36
Diluted earnings per common share	**$ 0.15**	$ 1.00	$ 1.19

NOTE 4. INVESTMENTS

A summary of net investment income follows:

(Amounts in thousands) *Years Ended December 31,*	**2000**	1999	1998
Interest on fixed maturities	**$48,411**	$56,638	$70,358
Interest on cash equivalents	**2,265**	6,954	5,593
Total investment income	**50,676**	63,592	75,951
Equity in net loss of 21st of Arizona	**(1,060)**	(451)	(373)
Less investment expense	**330**	473	432
Net investment income	**$49,286**	$62,668	$75,146

A summary of realized investment gains and losses before income taxes follows:

(Amounts in thousands) *Years Ended December 31,*	**2000**	1999	1998
Fixed maturities available-for-sale:			
Gross realized gains	**$ 1,685**	$ 13,475	$23,030
Gross realized losses	**(6,561)**	(14,697)	(390)
Net realized gain (loss) on fixed maturities	**(4,876)**	(1,222)	22,640
Equity securities			
Gross realized gains	**227**	945	—
Gross realized losses	**—**	—	—
Net realized gain on equity securities	**227**	945	—
Net realized investment gain (loss)	**(4,649)**	(277)	22,640
Gain (loss) on disposal of property	**(361)**	(133)	—
Total gain (loss)	**$ (5,010)**	$ (410)	$22,640

The amortized cost, gross unrealized gains and losses and fair values of investments as of December 31, 2000 and 1999, are as follows:

(Amounts in thousands)	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
2000				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 14,605	$ 40	$ 194	$ 14,451
Obligations of states and political subdivisions	834,580	10,480	3,219	841,841
Corporate securities	59,814	63	3,514	56,363
Total fixed maturities	908,999	10,583	6,927	912,655
Equity securities	40	393	—	433
Total investments	$ 909,039	$10,976	$ 6,927	$913,088
1999				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 15,443	$ 9	$ 785	$ 14,667
Obligations of states and political subdivisions	912,438	1,099	55,984	857,553
Corporate securities	77,920	67	7,225	70,762
Total fixed maturities	1,005,801	1,175	63,994	942,982
Equity securities	81	482	—	563
Total investments	$1,005,882	$ 1,657	$63,994	$943,545

The amortized cost and fair value of the Company's fixed maturity investments at December 31, 2000, are summarized by contractual maturity as follows:

(Amounts in thousands) *Available-for-Sale*	*Amortized Cost*	*Fair Value*
Fixed maturities due:		
2001	$ —	$ —
2002 - 2005	22,147	20,980
2006 - 2010	119,146	119,632
2011 and thereafter	767,706	772,043
Total	$908,999	$912,655

Expected maturities of the Company's investments may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Details follow concerning the changes in the after-tax items included in ''Other Comprehensive Income'' in the Consolidated Statement of Stockholders Equity for 2000, 1999 and 1998.

(Amounts in thousands) *Years Ended December 31,*	**2000**	1999	1998
Unrealized gain (loss) on available-for-sale investments, net of tax expense (benefit) of $21,608, $(34,508) and $9,587, respectively	**$40,128**	$(63,884)	$ 17,805
Reclassification adjustment for investment gains (losses) included in net income, net of tax expense (benefit) of $(1,627), $(97) and $7,924, respectively	**3,022**	180	(14,716)
Minimum pension liability in excess of unamortized prior service cost net of deferred income tax benefit of $457 and $109, respectively	**(848)**	(202)	—
Total	**$42,302**	$(63,906)	$ 3,089

NOTE 5. FEDERAL INCOME TAXES

Federal income tax expense (benefit) consists of:

(Amounts in thousands) *Years Ended December 31,*	**2000**	1999	1998
Current tax expense (benefit)	**$ (10,077)**	$16,101	$ 3,414
Deferred tax expense (benefit)	**(3,961)**	17,598	50,884
	$ (14,038)	$33,699	$54,298

The Company's net deferred tax asset is comprised of:

(Amounts in thousands) *December 31,*	**2000**	1999
Deferred tax assets:		
Net operating loss carryforward	**$ 61,534**	$ 33,172
Alternative minimum tax credit	**22,776**	33,029
Unearned premiums	**15,593**	14,041
Unpaid losses and loss adjustment expenses	**6,037**	5,307
Non-qualified retirement plans	**3,898**	3,623
Unrealized investment losses	**—**	21,817
Charitable contributions carryforward	**2,467**	—
Other	**2,177**	3,890
	114,482	114,879
Deferred tax liabilities:		
Unrealized investment gains	**851**	—
Deferred policy acquisition costs	**8,830**	9,065
Salvage and subrogation	**1,222**	890
EDP software development costs	**31,145**	13,673
	42,048	23,628
Net deferred tax asset	**$ 72,434**	$ 91,251

During 2000, the Company had a net operating loss of approximately $82 million. As of December 31, 2000, the Company has a net operating loss carryforward of approximately $177 million for regular tax purposes of which approximately $95 million expires in the year 2009 and $82 million expires in the year 2020, a charitable contribution carryforward of $2.5 million which expires in 2006 and an alternative minimum tax credit carryforward of $23 million. Alternative minimum tax credits may be carried forward indefinitely to offset future regular tax liabilities.

The Company is required to establish a ''valuation allowance'' for any portion of the deferred tax asset that management believes will not be realized. The Company believes that because of its historically strong earnings performance and tax planning strategies available, it is more likely than not that the Company will realize the full benefit of the deferred tax asset; therefore, no valuation allowance has been established.

A reconciliation of income tax computed at the federal statutory tax rate of 35% for 1998 through 2000 to total income tax expense follows:

(Amounts in thousands) *Years Ended December 31,*	**2000**	1999	1998
Federal income taxes (benefit) at statutory rate	**$ (382)**	$42,429	$54,380
Decrease due to:			
Tax-exempt income, net	**(12,546)**	(8,662)	(403)
Other	**(1,110)**	(68)	321
Federal income taxes (benefit)	**$(14,038)**	$33,699	$54,298

There were no income tax payments required for the year ended December 31, 2000. Payments for income taxes were $19,500,000 and $13,661,000 for the years ended December 31, 1999 and 1998, respectively.

NOTE 6. DEFERRED POLICY ACQUISITION COSTS

Following is a summary of policy acquisition costs deferred for amortization against future income and the related amortization charged to income from operations:

(Amounts in thousands) *Years Ended December 31,*	**2000**	1999	1998
Deferred policy acquisition costs at beginning of year	**$ 22,156**	$ 16,100	$ 11,510
Acquisition costs deferred	**91,617**	86,570	62,113
Acquisition costs amortized and charged to income during the year	**(91,386)**	(80,514)	(57,523)
Deferred policy acquisition costs at end of year	**$ 22,387**	$ 22,156	$ 16,100

NOTE 7. PROPERTY AND EQUIPMENT

A summary of property and equipment follows as of December 31,

(Amounts in thousands)	**2000**	1999
Furniture and office equipment	**$ 47,288**	$ 36,034
Automobiles	**3,575**	3,164
Leasehold improvements	**14,153**	8,282
Software currently in service	**44,504**	35,040
Software development projects in progress	**74,442**	31,970
Subtotal	**183,962**	114,490
Less accumulated depreciation	**(45,900)**	(30,035)
	$138,062	$ 84,455

Property and equipment is recorded at cost and depreciated on a straight-line basis. The estimated useful lives used for depreciation purposes are: furniture and fixtures — 7 years; equipment — 3 to 5 years; leasehold improvements — 7 years; software — 3 to 7 years.

NOTE 8. EMPLOYEE BENEFITS

Pension Plan and Supplemental Executive Retirement Plan

The Company sponsors a non-contributory defined benefit pension plan which covers essentially all employees who have completed at least one year of service. The benefits are based on employees' compensation during all years of service. The Company's funding policy is to make annual contributions as required by applicable regulations. At December 31, 2000, the pension plan's assets were comprised of 33.5% fixed income securities and 66.5% stock index mutual funds.

The Company also sponsors an unfunded supplemental executive retirement plan that covers certain key employees designated by the Board of Directors. The supplemental plan benefits are based on years of service and compensation during the last three years of employment and are reduced by the benefit payable from the pension plan.

The net periodic pension cost for these plans was $4,086,000, $4,357,000 and $4,117,000 in 2000, 1999 and 1998, respectively. Accrued pension costs included in the consolidated balance sheets at December 31, 2000 and 1999 are $3,424,000 and $2,499,000, respectively.

Savings and Security Plan

The Company sponsors a contributory savings and security plan for eligible employees. The Company provides matching contributions equal to 75% of the lesser of 6% of an employee's compensation or the amount contributed by the employee. Contributions charged against operations were $3,089,000, $2,963,000 and $2,728,000 in 2000, 1999 and 1998, respectively.

NOTE 9. RESERVE FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following analysis provides a reconciliation of the activity in the reserve for unpaid losses and loss adjustment expenses (LAE):

(Amounts in thousands) *Years Ended December 31,*	**2000**	1999	1998
At beginning of year:			
Reserve for losses and LAE, gross of reinsurance	**$276,248**	$382,003	$437,887
Reinsurance recoverable	**32,850**	42,188	49,469
Reserve for losses and LAE, net of reinsurance	**243,398**	339,815	388,418
Losses and LAE incurred, net of reinsurance			
Current year	**704,365**	613,760	622,758
Prior years	**45,023**	(8,696)	3,621
Total	**749,388**	605,064	626,379
Losses and LAE paid, net of reinsurance			
Current year	**498,602**	436,346	423,031
Prior years	**227,231**	265,135	251,951
Total	**725,833**	701,481	674,982
At end of year:			
Reserve for losses and LAE, net of reinsurance	**266,953**	243,398	339,815
Reinsurance recoverable	**31,483**	32,850	42,188
Reserve for losses and LAE, gross of reinsurance	**$298,436**	$276,248	$382,003

The deficiency that emerged in 2000 related to insured events of prior years primarily resulted from the Company's estimate in 1999 of the beneficial effect on loss costs of laws passed in prior years which limited the rights of uninsured motorists and drunk drivers to collect non-economic damages. The Northridge Earthquake, which occured on January 17, 1994, significantly affected the operating results and the financial position of the Company. Provisions charged to income for this event amounted to $3.5 million, $2.4 million and $40.0 million in 2000, 1999 and 1998, respectively.

NOTE 10. BANK LOAN PAYABLE

The Company had a variable-rate revolving credit facility (''the Facility'') with an outstanding balance of $67.5 million at December 31, 1999.

In September 2000, the Company exercised its option to prepay the then remaining balance of $33.75 million which resulted in a pre-tax charge of $286,000 from the write-off of previously unamortized debt issuance costs. This charge has been included in third quarter interest expense for financial reporting purposes. Interest paid was $2,204,000 in 2000, $5,306,000 in 1999 and $8,660,000 in 1998.

NOTE 11. REINSURANCE

Reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company periodically reviews the financial condition of its reinsurers to minimize its exposure to losses from reinsurer insolvencies. It is the Company's policy to hold collateral under related reinsurance agreements in the form of letters of credit for unpaid losses for all reinsurers not licensed to do business in the Company's state of domicile.

The effect of reinsurance on premiums written and earned is as follows:

(Amounts in thousands)	*2000*		*1999*		*1998*	
Years Ended December 31,	*Written*	*Earned*	*Written*	*Earned*	*Written*	*Earned*
Gross	$910,720	$906,903	$ 880,534	$ 881,523	$ 885,617	$ 885,332
Ceded	(78,593)	(81,417)	(111,721)	(111,100)	(111,903)	(112,468)
Net	$832,127	$825,486	$ 768,813	$ 770,423	$ 773,714	$ 772,864

Losses and loss adjustment expenses have been reduced by reinsurance ceded as follows:

(Amounts in thousands) *Years Ended December 31,*	**2000**	1999	1998
Gross losses and loss adjustment expenses incurred	**$ 824,714**	$682,519	$706,316
Ceded losses and loss adjustment expenses incurred	**(75,326)**	(77,455)	(79,937)
Net losses and loss adjustment expenses incurred	**$ 749,388**	$605,064	$626,379

In connection with an investment agreement executed in 1994 with AIG, each of the Company's insurance subsidiaries entered into a five-year quota share reinsurance agreement with an AIG affiliate to provide coverage for all ongoing lines of business. Under this contract, which attaches to the Company's retained risks net of all other reinsurance, the subsidiaries ceded 10% of their premiums earned and losses and loss adjustment expenses incurred in connection with policies incepted during the period January 1, 1995, through December 31, 1999. The majority of the Company's reinsurance receivables are due from the AIG affiliate. The AIG affiliate has the option to renew the agreement for each of the four subsequent years at declining coverage percentages of 8%, 6%, 4% and 2%, respectively, and elected to do so in 2000 and 2001 at 8% and 6%, respectively. Ceding commissions of 13.57%, 10.42% and 9.40% were earned by the insurance subsidiaries for 2000, 1999 and 1998, respectively.

Losses on homeowner policies inforce or incepting between July 1, 1996, and September 30, 1996, are ceded 100% under a separate quota share agreement which is now in run-off.

Homeowner policies renewed February 15, 1997, through December 31,1999, are covered in full by quota share reinsurance agreements with three reinsurers as follows: National Union Fire Insurance Co. of Pittsburgh, PA (50%), a subsidiary of AIG, St. Paul Fire & Marine Insurance Company Re (25%) and Folksamerica Re Company (25%). The Company's insurance subsidiaries earn a commission on ceded premiums based on a sliding scale dependent on the incurred loss ratio.

Beginning January 1, 2000, a multilevel catastrophe reinsurance program provides for recoveries of homeowner losses of up to $65 million in excess of $10 million retention per occurrence. Because the Company's homeowner policies do not include any earthquake coverage, its principle catastrophe exposure relates to the potential for fire following an earthquake. In 2000, the company ceded 10.64% of the direct premium earned on homeowners policies related to property coverage in the amount of $2.6 million.

The Company has a quota share treaty for its Personal Umbrella Policy line of business whereby it cedes 60% of premiums and losses. After the effect of the 10% quota share treaty with AIG discussed earlier, the Company effectively retains 36% of the risk for this line of business from 1995 through 1999. For 2000, the quota share treaty percent is 8% and the retention is 36.8%.

NOTE 12. LEASE COMMITMENTS

The Company leases office space in Woodland Hills, California. The lease expires in November 2014 and may be renewed for two consecutive five-year periods. The Company also leases office space in several other locations throughout California, primarily for claims services.

Minimum rental commitments under the Company's lease obligations are as follows:

	(Amounts in thousands)
2001	$ 14,579
2002	14,389
2003	12,994
2004	12,032
2005	12,059
Thereafter	108,959

Rental expense charged to operations for the years ended December 31, 2000, 1999 and 1998, was $15,448,000, $14,415,000 and $12,879,000, respectively.

NOTE 13. STATUTORY CAPITAL AND SURPLUS

State insurance laws and regulations of the California Department of Insurance (CDOI) prescribe accounting practices, which differ from GAAP, for determining statutory net income and policyholders' surplus for insurance companies. The statutory basis policyholders' surplus of the Company's insurance subsidiaries was $475.6 million and $581.4 million as of December 31, 2000 and 1999, respectively. The statutory net income was $11.1 million, $100.1 million and $154.9 million for the years ended December 31, 2000, 1999 and 1998, respectively.

The maximum amount of dividends which can be paid by California insurance companies without prior approval of the CDOI is limited to the greater of 10% of policyholders' surplus as of the preceding December 31 or net income for the preceding year. Statutory regulations also require that dividends be paid from earned surplus. At December 31, 2000, the amount of dividends available to the Company from its insurance subsidiaries during 2001 not limited by such restrictions is approximately $46.7 million.

The National Association of Insurance Commissioners developed a revised Accounting Practices and Procedures Manual (the ''Codification'') that became effective for California-domiciled insurance companies on January 1, 2001. To some extent, the new Codification prescribes changes to the statutory accounting practices that the Company and its insurance subsidiaries will use to prepare their statutory-basis financial statements for periods ending after December 31, 2000. Management believes the impact of these changes to the Company and its insurance subsidiaries' statutory-basis capital and surplus as of January 1, 2001, will not be significant.

NOTE 14. STOCK-BASED COMPENSATION

The Company has two separate stock compensation plans: the 1995 Stock Option Plan, which provides for grants of stock options to key employees and non-employee directors of the Company, and the Restricted Shares Plan, which provides for stock grants to key employees.

The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations in accounting for its stock-based compensation. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. SFAS No. 123, *Accounting for Stock-Based Compensation*, requires disclosure of the pro forma net income and earnings per share as if the Company had accounted for its employee stock options under the fair value method. The fair value of stock grants made under the Restricted Shares Plan is amortized to expense under APB 25 over the vesting period of the grants. This accounting treatment results in compensation expense being recorded in a manner consistent with that required under SFAS No. 123, and, therefore, pro forma net income and earnings per share amounts for the Restricted Share Plan would be unchanged from those reported in the financial statements.

1995 Stock Option Plan

The aggregate number of common shares issued and issuable under the Plan currently is limited to 4,000,000. At December 31, 2000, 1,179,693 common shares remain available for future grants. All options granted have ten-year terms. As a consequence of AIG's acquiring a controlling interest in the Company, vesting was accelerated for all options previously granted through July 27, 1998. Options granted after July 27, 1998, vest over various future periods.

Exercise prices for options outstanding at December 31, 2000, ranged from $12.50 to $29.25. The weighted-average remaining contractual life of those options is 7.8 years.

A summary of the Company's stock option activity and related information follows:

	Number of Options	*Weighted-Average Exercise Price*
Options outstanding January 1, 1998	1,161,750	$18.71
Granted in 1998	606,250	29.09
Exercised in 1998	(122,320)	18.80
Forfeited in 1998	(16,000)	28.36
Options outstanding December 31, 1998	1,629,680	22.47
Granted in 1999	598,800	17.81
Exercised in 1999	(42,833)	15.03
Forfeited in 1999	(88,000)	23.43
Options outstanding December 31, 1999	2,097,647	21.26
Granted in 2000	1,034,925	19.97
Exercised in 2000	(100,682)	16.73
Forfeited in 2000	(211,583)	22.68
Options outstanding December 31, 2000	2,820,307	20.75

The Company's pro forma information using the Black-Scholes valuation model follows:

Years Ended December 31,	**2000**	1999	1998
Estimated weighted-average of the fair value of options granted	**$ 6.72**	$ 4.03	$ 8.88
Pro forma net income (in thousands)	**$ 11,902**	$87,574	$94,659
Pro forma earnings per share — basic	**$ 0.14**	$ 1.00	$ 1.26
Pro forma earnings per share — diluted	**$ 0.14**	$ 1.00	$ 1.12

For pro forma disclosure purposes, the fair value of stock options was estimated at each date of grant using a Black-Scholes option pricing model using the following assumptions: risk-free interest rates ranging from 5.93% to 6.82% for 2000, 5.48% for 1999 and 5.02% to 5.65% for 1998; dividend yields of 2.50% for 2000, 3.59% in 1999 and ranging from 1.98% to 2.33% in 1998; volatility factors of the expected market price of the Company's common stock ranging from 0.20 to 0.32 for 2000 and 0.23 for both 1999 and 1998; and a weighted-average expected life of the options of 8 years in 2000, 1999 and 1998.

In management's opinion, existing stock option valuation models do not provide an entirely reliable measure of the fair value of non-transferable employee stock options with vesting restrictions.

Restricted Shares Plan

The Restricted Shares Plan currently provides for grants of up to 1,421,920 shares of common stock to be made available to key employees as determined by the Key Employee Incentive Committee of the Board of Directors. Restrictions are removed on 20% of the shares of each employee on January 1 of each of the five years following the year of grant. Upon issuance of grants of common shares under the plan, unearned compensation equivalent to the market value on the date of grant is charged to common stock and subsequently amortized in equal monthly installments over the five-year vesting period of the grant. As a consequence of AIG's acquiring a controlling interest in the Company, the previously unamortized balance of $2,280,000 as of July 27, 1998, was recognized as a charge to income. Total amortization expense relating to the Restricted Shares Plan was $178,000 and $2,698,900 in 2000 and 1998, respectively. There was no amortization expense in 1999. The Board of Directors decided in November 2000 to discontinue this plan as a major component of its Long-term incentive program and utilize the stock option plan to compensate an officer, based partly upon his or her contribution to the Company. In the future, restricted share awards are intended be used on a selective basis to reward key contributions, recruit new executives or key personnel or for similar purposes.

A summary of grants under the plan from 1998 through 2000 follows:

	Common Shares	*Market Price Per Share on Date of Grant*
Outstanding, January 1, 1998	119,594	
Granted in 1998	44,100	$26.00
Vested in 1998	(163,694)	
Canceled or forfeited	—	
Outstanding, December 31, 1998	—	
Granted in 1999	49,275	$18.06
Vested in 1999	—	
Canceled or forfeited	—	
Outstanding, December 31, 1999	49,275	
Granted in 2000	160,175	$18.67
Vested in 2000	(9,855)	
Canceled or forfeited	(23,457)	
Outstanding, December 31, 2000	176,138	

NOTE 15. LITIGATION

In the normal course of business, the Company is named as a defendant in lawsuits related to claim issues. Some of the actions request exemplary or punitive damages. These actions are vigorously defended unless a reasonable settlement appears appropriate.

Currently included in this class of litigation are certain actions that arose out of the Northridge Earthquake. Most of these actions seek to resolve claims involving disputed damages or to contest the applicability of the statute of limitations. Further actions in connection with the previously discussed SB 1899 also may be expected. The resolution of such litigation has an element of uncertainty and although the impact on future results of operations cannot be estimated, the Company does not believe that the ultimate outcome of any pending action will have a material effect on its consolidated financial condition or results of operations.

NOTE 16. NORTHRIDGE EARTHQUAKE

California SB 1899 took effect January 1, 2001, potentially reviving certain insurance claims arising out of the 1994 Northridge Earthquake that previously were barred by the applicable statute of limitations, the policy contract or settlement agreements. The Company continues to believe this statute violates federal and state constitutional provisions prohibiting impairment of contracts and supports a legal challenge to the law being undertaken by another insurer and two industry trade groups. However, to mitigate the risk of an adverse determination, the Company has begun adjusting and settling claims made under SB 1899 while reserving its right to assert the unconstitutionality of the law as a defense to any claim or action. As of February 28, 2001, approximately one percent of previously reported Northridge earthquake claims have been presented for reconsideration under SB 1899. At this time, the Company cannot predict how many claims ultimately may require adjustment under the statute. The Company incurred over $1.1 billion in earthquake-related losses and expenses, closing 94% of the total 46,000 claims within the first year and 98.6% without litigation.

NOTE 17. UNAUDITED QUARTERLY RESULTS OF OPERATIONS

The summarized unaudited quarterly results of operations were as follows:

(Amounts in thousands, except per share data) *Quarter Ended*	March 31,	June 30,	September 30,	December 31,
2000				
Net premiums earned	$200,271	$207,062	$208,109	$210,044
Net investment income	13,050	12,427	12,303	11,506
Realized investment gains (losses)	(3,743)	(1,255)	(299)	287
Net income	3,654	4,960	2,570	1,761
Basic earnings per common share	0.04	0.06	0.03	0.02
Diluted earnings per common share	0.04	0.06	0.03	0.02
1999				
Net premiums earned	$194,345	$192,299	$191,234	$192,545
Net investment income	17,899	16,201	14,681	13,887
Realized investment gains (losses)	7,249	3,290	(7,195)	(3,754)
Net income	28,913	32,923	18,372	7,320
Basic earnings per common share	0.33	0.38	0.21	0.08
Diluted earnings per common share	0.33	0.38	0.21	0.08

NOTE 18. RESULTS OF OPERATIONS BY LINE OF BUSINESS

The following table presents premium revenue and underwriting profit (loss) for the Company's insurance lines on a GAAP basis for the years ended December 31.

	2000			
(Amounts in thousands)	Personal Auto	Other Personal Lines	Earthquake	Total
Gross premiums written	$878,239	$32,481	$ —	$910,720
Net premiums earned	$802,713	$22,784	$ (11)	825,486
Underwriting profit (loss)	$ (39,975)	$ 972	$3,464)	(42,467)
Loss and LAE ratio	90.8%	75.5%	—	90.8%
Underwriting ratio	14.2%	20.2%	—	14.4%
Combined ratio	105.0%	95.7%	—	105.2%

	1999			
(Amounts in thousands)	Auto	Other Personal Lines	Earthquake	Total
Gross premiums written	$853,004	$27,530	$ —	880,534
Net premiums earned	$769,168	$ 1,255	$ —	770,423
Underwriting profit (loss)	$ 78,302	$ (9,817)	$(2,497)	65,988
Loss and LAE ratio	77.5%	—	—	78.6%
Underwriting ratio	12.3%	—	—	12.9%
Combined ratio	89.8%	—	—	91.5%

	1998			
(Amounts in thousands)	Auto	Other Personal Lines	Earthquake	Total
Gross premiums written	$858,263	$ 27,357	$ (3)	885,617
Net premiums earned	$772,267	$ 817	$ (220)	772,864
Underwriting profit (loss)	$112,703	$ (4,610)	$(40,230)	67,863
Loss and LAE ratio	74.9%	—	—	81.0%
Underwriting ratio	10.5%	—	—	10.2%
Combined ratio	85.4%	—	—	91.2%

Personal Auto. Underwriting profit in the auto line decreased by $118.3 million in 2000 compared to 1999. The decrease was caused principally by the estimate in 1999 of the beneficial effect on loss costs of laws passed in prior years which limited the rights of uninsured motorists and drunk drivers to collect non-economic damages. Underwriting profit declined $34.4 million in 1999 from 1998 as a result of increasing losses and a 6.85% rate decrease that was effective in February 1999.

Other Personal Lines. Underwriting profit was greater in 2000 as policies-in-force increased. The $9.8 million underwriting loss in 1999 was primarily due to a $6.75 million charge taken in the second quarter in connection with a settlement reached in April 1999 with the CDOI. The settlement enabled the Company to resume sales of new homeowner policies in 1999. The 1998 underwriting loss is primarily due to the Company's not being able to write new business.

Earthquake. See Note 9 of Notes to Consolidated Financial Statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements with the Company's independent auditors on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure, or any reportable events.

PART III

ITEM 10. DIRECTORS AND OFFICERS OF THE REGISTRANT

Information in response to Item 10 is incorporated by reference from the Company's definitive proxy statement used in connection with the Company's 2001 Annual Meeting of Shareholders pursuant to Instruction G(3) of Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Information in response to Item 11 is incorporated by reference from the Company's definitive proxy statement used in connection with the Company's 2001 Annual Meeting of Shareholders pursuant to Instruction G(3) of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information in response to Item 12 is incorporated by reference from the Company's definitive proxy statement used in connection with the Company's 2001 Annual Meeting of Shareholders pursuant to Instruction G(3) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Certain Information in response to Item 13 is incorporated by reference from the Company's definitive proxy statement used in connection with the Company's 2001 Annual Meeting of Shareholders pursuant to Instruction G(3) of Form 10-K. All related party transactions which require disclosure are included in the Management's Discussion and Analysis or the Notes to Consolidated Financial Statements.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) DOCUMENTS FILED WITH THIS REPORT

(1) FINANCIAL STATEMENTS

The following consolidated financial statements of the Company are filed as a part of this report:

(2) SCHEDULES

The following financial statement schedule required to be filed by Item 8 and by paragraph (d) of Item 14 of Form 10-K is submitted as a separate section of this report.

Schedules I, III, IV and VI have been omitted as all required data is included in the Notes to Consolidated Financial Statements.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(3) EXHIBITS REQUIRED

The following exhibits required by Item 601 of Regulation S-K and by paragraph (c) of Item 14 of Form 10-K are listed by number corresponding to the Exhibit Table of Item 601 of Regulation S-K and are incorporated by reference as indicated below:

3(a) Articles of Incorporation, as amended, incorporated herein by reference from the Registrant's Form 10-K for the year ended December 31, 1994

3(b) Bylaws, as amended, incorporated herein by reference from the Registrant's Form 10-K for the year ended December 31, 1998

The following contract is incorporated herein by reference from the Registrant's Form 10-K for the year ended December 31, 1985:

10(a) Life Insurance Agreement for key officers

The following contracts are incorporated herein by reference from the Registrant's Form 10-K for the year ended December 31, 1987:

10(b) Amendment to 21st Century Insurance Group Restricted Shares Plan

10(c) Split Dollar Insurance Agreement between the Company and Stanley M. Burke, as trustee of the 1983 Foster Insurance Trust

The following contract is incorporated herein by reference from the Registrant's Form 10-K for the year ended December 31, 1988:

10(d) Amendment to 21st Century Insurance Group Supplemental Executive Retirement Plan

The following contracts are incorporated herein by reference from the Registrant's Form 8-K dated October 5, 1994:

10(e) Letter of intent between the Company and American International Group, Inc.

10(f) Stock Option Agreement between the Company and American International Group, Inc.

The following contract is incorporated herein by reference from the Registrant's Form 10-Q dated November 13, 1994:

10(g) Investment and Strategic Alliance Agreement between the Company and American International Group, Inc.

The following contract is incorporated herein by reference from the Registrant's Form 10-K for the year ended December 31, 1994:

10(h) Amendment No. 1 to Investment and Strategic Alliance Agreement between the Company and American International Group, Inc.

The following contract is incorporated herein by reference from the Registrant's Form S-8 dated July 26, 1995:

10(i) 21st Century Insurance Group Stock Option Plan for eligible employees and non-employee directors

The following contracts are incorporated herein by reference from the Registrant's Form 10-K for the year ended December 31, 1995:

10(j)	Amended and Restated Credit Agreement among the Company, Union Bank, The First National Bank of Chicago, et. al.
10(k)	Quota Share Reinsurance Agreement between the Company and American International Group, Inc., as amended

The following contracts are incorporated herein by reference from the Registrant's Form 10-K for the year ended December 31, 1996:

10(l)	Forms of Stock Option Agreements
10(m)	Form of Restricted Shares Agreement
10(n)	21st Century Insurance Group Supplemental Executive Retirement Plan, as amended
10(o)	21st Century Insurance Group Pension Plan, 1994 Amendment and Restatement
10(p)	Amendment No. 1 to 20th Century Industries Pension Plan

The following exhibits are incorporated by reference or filed herewith as indicated:

21	Subsidiaries of the Registrant, incorporated herein by reference from ''Item 1. Business'' in the Registrant's Form 10-K for the year ended December 31, 1998
23	Consent of Independent Auditors, filed herewith

(b) REPORTS ON FORM 8-K.

There were no reports on Form 8-K filed for the three months ended December 31, 2000.

21ST CENTURY INSURANCE GROUP (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS

(Amounts in thousands, except share data) *December 31,*	**2000**	1999
Assets		
Cash	**$ 47**	$ 41,986
Investments with fixed maturities	**97,540**	—
Prepaid loan fees	**—**	613
Accounts receivable from subsidiaries and Affiliates, net of payables	**—**	41,983
Investment in unconsolidated insurance subsidiaries and affiliates, at equity	**615,393**	649,273
Other assets	**98,635**	69,566
Total assets	**$811,615**	$803,421
Liabilities and stockholders' equity		
Accounts payable and accrued expenses	**$ 18,224**	$ 15,084
Accounts payable to subsidiaries and affiliates, net of receivables	**72,830**	—
Bank loan payable	**—**	67,500
Total liabilities	**91,054**	82,584
Stockholders' equity:		
Capital Stock		
Preferred stock, par value $1 per share; authorized 500,000 shares, none outstanding	**—**	—
Series A convertible preferred stock, par value $1 per share, stated value $1,000 per share; authorized 376,126 shares, none outstanding	**—**	—
Common stock, without par value; authorized 110,000,000 shares, outstanding 85,145,817 in 2000 and 85,918,680 in 1999	**415,064**	429,623
Retained earnings	**303,714**	331,733
Accumulated other comprehensive income (loss) of insurance subsidiaries — net	**1,783**	(40,519)
Total stockholders' equity	**720,561**	720,837
Total liabilities and stockholders' equity	**$811,615**	$803,421

21ST CENTURY INSURANCE GROUP (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF INCOME

(Amounts in thousands, except share data) *Years Ended December 31,*	**2000**	1999	1998
Revenues			
Dividends received from subsidiaries[1]	**$ 181,924**	$20,000	$ 97,256
Interest	**807**	4,972	3,810
Total	**182,731**	24,972	101,066
Expenses			
Loan interest and fees	**2,900**	7,020	10,278
General and administrative	**77**	110	820
Total	**2,977**	7,130	11,098
Income before federal income taxes	**179,754**	17,842	89,968
Federal income tax benefit	**414**	756	2,139
Net income before equity in undistributed income of subsidiaries	**180,168**	18,598	92,107
Equity in undistributed income (loss) of subsidiaries	**(167,223)**	68,930	8,965
Net income	**$ 12,945**	$87,528	$101,072
Earnings per common share			
Basic	**$ 0.15**	$ 1.00	$ 1.36
Diluted	**$ 0.15**	$ 1.00	$ 1.19

[1] *Excludes accrued dividends of $3.1 million at December 31, 2000, and $90 million at December 31, 1999.*

21ST CENTURY INSURANCE GROUP (PARENT COMPANY)
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS

(Amounts in thousands) *Years Ended December 31,*	**2000**	1999	1998
Net cash provided by operating activities	**$ 216,017**	$ 53,807	$114,585
Investing activities:			
Capital contributed to 21st of Arizona	**(2,117)**	(343)	(1,470)
Net purchase of investments available for sale	**(97,540)**	—	—
Net purchases of equipment	**(35,097)**	(32,860)	(25,063)
Net cash used in investing activities	**(134,754)**	(33,203)	(26,533)
Financing activities:			
Repurchase of common stock, net of options exercised	**(16,598)**	(33,285)	—
Proceeds from exercise of options	**1,860**	641	2,460
Proceeds from exercise of warrants	**—**	—	145,600
Bank loan principal repayment	**(67,500)**	(45,000)	(45,000)
Dividends paid	**(40,964)**	(55,742)	(51,608)
Net cash provided by (used in) financing activities	**(123,202)**	(133,386)	51,452
Net increase (decrease) in cash	**(41,939)**	(112,782)	139,504
Cash, beginning of year	**41,986**	154,768	15,264
Cash, end of year	**$ 47**	$ 41,986	$154,768

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 23, 2001	21ST CENTURY INSURANCE GROUP (Registrant)
	By: ____________________ Bruce W. Marlow *President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated on the 23rd of March, 2001.

Signature	**Title**
Bruce W. Marlow	President and Chief Executive Officer (Principal Executive Officer)
Robert B. Tschudy	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
John M. Lorentz	Controller (Principal Accounting Officer)
Robert M. Sandler	Chairman of the Board
John B. De Nault, III	Director
William N. Dooley	Director
R. Scott Foster, M.D.	Director
Roxani M. Gillespie	Director
Bruce W. Marlow	Chief Executive Officer and Director
James P. Miscoll	Director
Gregory M. Shepard	Director
Howard I. Smith	Director

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Forms S-8 No. 33-80180, S-8 No. 33-61355 and S-8 No. 33-02261) pertaining to the 21st Century Insurance Group Savings and Security Plan, the 21st Century Insurance Group Stock Option Plan and the 21st Century Insurance Group Restricted Shares Plan, respectively, of our report dated January 26, 2001, with respect to the consolidated financial statements and schedule of 21st Century Insurance Group, included in this Annual Report (Form 10-K) for the year ended December 31, 2000.

Ernst & Young LLP

Los Angeles, California
March 26, 2001