RESERVE RATIOS

The Annual Statement (AS) Statutory/State Page data used in the calculations are downloaded from the NAIC Database. Countrywide data for 2004 and 2005 are taken, respectively, from the 2005 and 2006 editions of *A.M. Best's Aggregate & Averages*.

Revised Reserve Ratios Methodology:

1) Unearned Premium Reserves Ratio

To compute the Unearned Premium Reserve Ratio, we aggregated the State Page data of all insurers doing business in California during 2004 and 2005. The data elements were then input to derive the "by line" Unearned Premium Ratio.

For three specific lines (Medical Malpractice, Other Liability, and Product Liability), the data were further split into occurrence and claims-made. Since the Annual Statement State Page does not distinguish between occurrence and claims-made data, we used the Countrywide Earned and Unearned Premium data from the 2006 edition of *A.M. Best's Aggregates and Averages* to allocate the California data into occurrence and claims-made. Data for the three lines were taken from Page 156 [Total US PC Industry for 2005 -- Underwriting & Investment Exhibit, Part 1: Premiums Earned -- Column 3 (Unearned Premiums Current Year) & Column 2 (Unearned Premiums Prior Year)].

Unearned Premium Reserves Ratio (by Line)

$$= \frac{\textbf{Average of the last 2 years ending Unearned Premium Reserves}}{\textbf{Earned Premium for most current year}}$$

$$= \frac{(\text{2004 CA Direct Unearned Premium Reserves} + \text{2005 CA Direct Unearned Premium Reserves}) \;/\; 2}{\text{2005 CA Direct Earned Premium}}$$

2) Loss Reserves Ratio

To compute the Loss Reserve Ratio, we use both the aggregated State Page data of all insurers doing business in California and data from *A.M. Best's Aggregate & Averages*.

For three specific lines (Medical Malpractice, Other Liability, and Product Liability), the data were further split into occurrence and claims-made. We used the Countrywide Incurred Losses and Loss Reserves data from the 2006 edition of *A.M. Best's Aggregates and Averages'* to allocate the California data into occurrence and claims-made. Data for the three lines were taken from Page 159 [Total US PC Industry for the Year 2005 -- Underwriting & Investment Exhibit, Part 2: Losses Paid And Incurred -- Column 5 (Net Losses Unpaid Current Year), Column 6 (Net Losses Unpaid Prior Year)], and Column 7 (Losses Incurred Current Year).

Loss Reserves Ratio (by Line)

$$= \text{Average of the last 2 years ending } \frac{(\text{Loss Reserves} + \text{Loss Adjustment Expense Reserves})}{(\text{Incurred Loss} + \text{Defense \& Cost Containment Exp for most current year})}$$

$$= \frac{[\,(\text{2005 CA Dir. Losses Unpaid} + \text{2005 CA DCCE Unpaid} + \text{2005 CA Allocated AOE Unpaid}) + (\text{2004 CA Dir. Losses Unpaid} + \text{2004 CA DCCE Unpaid} + \text{2004 CA Allocated AOE Unpaid})\,] \;/\; 2}{(\text{2005 CA Direct Losses Incurred} + \text{2005 CA DCCE Incurred})}$$

where:

Loss Adjustment Expense Reserves

= Defense & Cost Containment Expenses (DCCE) Unpaid
(formerly known as: ALAE – Allocated Loss Adjustment Expense)

\+ Adjusting & Other Expense (AOE) Unpaid
(formerly known as: ULAE – Unallocated Loss Adjustment Expense)

and

CA Allocated AOE (ULAE) reserves

$$= \frac{(\text{CA Losses Unpaid} + \text{DCCE Unpaid})}{(\text{CW Loss Reserves} + \text{DCCE Reserves})} * (\text{CW AOE reserves})$$

Note:

California #s are aggregated from the Annual Statement State Page.
Countrywide (CW) Adjusting & Other Expense Reserves is from *Best's Aggregate & Averages.*

Loss Reserve Ratio for Earthquake = 1.00