LEVERAGE RATIOS

<u>Leverage Ratio Formula</u>

Leverage Factor	=	Earned Premium (EP)
		Average of (Year-beginning + Year-end Policyholders' Surplus)

The data used in the calculations were taken from the 2004 and 2005 editions of *A.M. Best's Aggregates & Averages.* To calculate the Leverage Factor by Line, we allocated the Policyholders' Surplus to each line of insurance.

Components used to calculate the 2003 & 2004 Allocated Policyholders' Surplus "by Line":

Data Source:

Policyholders' Surplus: Page 154 - Under	writing & Investment Exhibit, Statement of Income, Lines 21 and 38.		
Premiums (Written, Une Page 156 - Under	arned and Earned): writing & Investment Exhibit, Part 1 - Columns 1, 2, 3 and 4.		
Unpaid Losses, prior year: Page 159 - Underwriting & Investment Exhibit, Part 2 - Column 6.			
Unpaid Losses & Expens Page 160 - Under	ses: writing & Investment Exhibit, Part 2A - Columns 8 and 9.		
Unpaid Expenses, prior y Page 146 - Under	year: writing & Investment Exhibit, Part 2A - Column 9 (2004 Edition)		
See Calculation of Lever	rage Factor [Earned Premium to Average Surplus] Exhibit:		
Columns [5] & [11] (by Line)	Total Reserves = Unearned Premium (U/E Premium) + Unpaid Losses + Unpaid Loss Adjustment Expenses [L.A.E.]		
Columns [6] & [12]	% of Reserves, by Line = <u>Total Reserves (by Line)</u> Total Reserves (all Lines)		
Columns [7] & [13]	Surplus by Line = % of Reserves by Line * Policyholders' Surplus		
Column [14]	2-Year Average Surplus = (2003 Surplus by Line + 2004 Surplus by Line) / 2		

Column [15] 2004 Earned Premium (EP)

Column [16]

Calculated Leverage Factor =

2004 EP 2-Year Average Surplus

Note: The leverage factor for Earthquake is set at 1.00

Additionally, the Commercial Multi-Peril (CMP) line has been split into CMP Liability and CMP Non-Liability. The allocation is based on the ratio of the reserves for each sub-line to the total reserves for CMP Combined. Similarly, the Auto Physical Damage line has been split into Personal (Private Passenger) Auto Physical Damage and Commercial Auto Physical Damage, with the allocation based on the ratio of reserves for each sub-line to the total reserves for Auto Physical Damage Combined.

Data Source -- allocations for these sub-lines are based on :

Data From A.M. Best's Aggregates and Averages – 2004 Edition (Calendar Year 2003), Page 151: Exhibit of Premiums and Losses (Statutory Page 14 Data)

Data From A.M. Best's Aggregates and Averages – 2005 Edition (Calendar Year 2004), Page 165: Exhibit of Premiums and Losses (Statutory Page 14 Data)