RESERVE RATIOS

The Annual Statement (AS) Statutory/State Page data used in the calculations are downloaded from the NAIC Database. Countrywide data for 2005 and 2006 are taken, respectively, from the 2006 and 2007 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 2005 and 2006. 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 2007 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 2006 -- 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)

\[
\text{Unearned Premium Reserves Ratio (by Line)} = \frac{\text{Average of the last 2 years ending Unearned Premium Reserves}}{\text{Earned Premium for most current year}}
\]

\[
= \frac{(2005\ CA\ Direct\ Unearned\ Premium\ Reserves + 2006\ CA\ Direct\ Unearned\ Premium\ Reserves)}{2006\ CA\ Direct\ Earned\ Premium}
\]

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 2007 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 163 [Total US PC Industry for the Year 2006 -- 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)

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

\[
= \frac{[\text{(2006 CA Dir. Losses Unpaid} + \text{2006 CA DCCE Unpaid} + \text{2006 CA Allocated AOE Unpaid}) + \text{2005 CA Dir. Losses Unpaid} + \text{2005 CA DCCE Unpaid} + \text{2005 CA Allocated AOE Unpaid})]}{\text{2006 CA Direct Losses Incurred} + \text{2006 CA DCCE Incurred}}
\]

where:

Loss Adjustment Expense Reserves

\[
= \text{Defense & Cost Containment Expenses (DCCE) Unpaid} + \text{Adjusting & Other Expense (AOE) Unpaid}
\]

(formerly known as: ALAE – Allocated Loss Adjustment Expense)

(formerly known as: ULAE – Unallocated Loss Adjustment Expense)

and

CA Allocated AOE (ULAE) reserves

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

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