
ACTUARIAL OPINION

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Statement of Actuarial Opinion

Annual Statement of
Citation Insurance Company
For the Year Ended December 31, 2004

I, Warren S. Ehrlich, Assistant Vice President – Senior Actuary, am an officer of Commerce Insurance Company, a member of the American Academy of Actuaries, and meet its qualifications standards. I am a Fellow of the Casualty Actuarial Society. I was appointed by the Board of Directors of the Citation Insurance Company (“the Company”) on November 18, 2004 to provide this opinion.

SCOPE

I have examined the reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 2004. The Company is part of an intercompany pooling agreement with other affiliates of the Commerce Group (the four companies in the group/pool are Commerce Insurance (lead company), Citation Insurance, American Commerce Insurance, and Commerce West Insurance Companies). Premiums and losses are allocated to the Company based on its assigned percentage of the total pool. Analysis of the reserve items identified has been performed for all pool companies combined. Any favorable or adverse development will impact pool members in a manner consistent with their pool participation.

The amounts listed in Exhibit A reflect the Loss Reserve Disclosure items (3) through (8) in Exhibit B.

My review was based upon summaries of exposures, loss data, and other related information for the Company and the other three companies in the Group.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by Randall Becker, Treasurer and Chief Accounting Officer of the Company (Commerce, Citation & American Commerce) and Michael Vrban, Chief Financial Officer and Treasurer (Commerce West). I evaluated the data used directly in my analysis for reasonableness and consistency. I also reconciled that data and the data from the other three companies to a composite Schedule P – Part 1 comprising the total intercompany pool to which the Company belongs. In other respects, my examination included the use of such actuarial assumptions and methods and such tests of calculations as I considered necessary. In my opinion, this review was conducted in accordance with commonly accepted loss and loss expense reserving methods and was based on actuarial factors that are relevant after due inquiry as to policy provisions.

OPINION

In my opinion, that amounts carried in Exhibit A on account of the items identified:

- (A) Meet the requirements of the insurance laws of the Commonwealth of Massachusetts.
- (B) Are consistent with reserves computed in accordance with generally accepted actuarial standards and principles.
- (C) Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements. This is a Category a. determination (Determination of Reasonable Provision).

RELEVANT COMMENTS

Based on my understanding of the use of this Opinion, I evaluated materiality in the context of 15% of the Company’s loss and LAE reserves, 25% of statutory surplus, and the action/control level from the Risk-Based Capital position at December 31, 2004, of which the minimum was selected (15% of reserves). Other measures of materiality might be used for reserves that are being evaluated in a different context. In

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this Opinion, I therefore considered an adverse deviation of \$11.9 million to be material. At this time, my assessment is that the Company does not have a significant potential for a material adverse deviation.

There have been no material changes in the actuarial assumptions and/or methods from those used as of December 31, 2003, i.e., in the assumptions and/or methods used to analyze each company's pre-pooled data.

The estimation of unpaid losses and loss adjustment expense is based on factors existing at the date of estimation. I have assumed that coverages will not be broadened by legislative action or judicial interpretation. Similarly, the estimates of the reserves cited in Exhibit A make no provision for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the Company's historical database or which are not yet quantifiable. In addition, future events or events for which the impact on the ultimate loss and loss adjustment expenses cannot be readily determined at the date of estimation may result in loss and loss adjustment expenses significantly varying from a reasonable provision as of the date of the estimation. No warranty is expressed or implied that such variance will not occur.

I have reviewed the Company's exposure to asbestos and environmental claims. In my opinion, there is a remote chance of material liability, since the Company has not provided coverage that could reasonably be expected to produce material levels of asbestos and/or environmental liability claims activity. The Company does not write "extended loss" policies.

During the course of my analysis, I reviewed the Company's exposure to terrorist attack losses. No claims have been presented to date. In my opinion, the risk of significant liabilities as of December 31, 2004 arising from terrorist attack losses is remote, given the nature of the coverage provided by the Company and prevailing coverage interpretations.

The Company does not discount loss and loss adjustment expense reserves.

The Company takes credit for expected future salvage and subrogation recoveries in its reserves. The amount is shown on Exhibit B.

The Company participates in certain voluntary and involuntary pooling arrangements (directly or by inter-company pooling). The Company records 100% of the loss and loss adjustment expenses reserves reported to it by these pools. For the Commonwealth Automobile Reinsurers pool (CAR), by far the largest pool the Company participates in, the Company also adds an accrual for reporting lag. I have relied upon the analysis of the reserves for establishing (total) reserves of the pool prepared by qualified actuaries. Commonly accepted actuarial techniques are used to establish pool reserves.

I am not aware of any reinsurance contract that either has been or should have been accounted for as retroactive reinsurance or financial reinsurance.

The Company does not have exposure to long duration contracts defined as being single or fixed premium policies with coverage periods of thirteen months or greater which are non-cancelable and not subject to premium adjustment (excluding financial guaranty contracts, mortgage guaranty policies, and surety contracts).

Ceded loss reserves are all either with residual market pools or if a material amount, with companies rated A or better by A.M. Best Company as of February 24, 2005 or fully collateralized. Past uncollectibility levels and current amounts in dispute have been reviewed and found to be immaterial relative to surplus. Therefore, reinsurance collectibility does not appear to be an issue. Relying on the information cited above, I have treated the reported net reinsurance recoverables as collectible for purposes of this study and have not anticipated any contingent liability that could arise if any of the reinsurers prove unable to meet their loss and loss adjustment expense obligations under the terms and conditions of their contracts with the Company.

I have reviewed the Company's Calculations of the National Association of Insurance Commissioners; Insurance Regulatory Information System tests that relate to the Company's December 31, 2004 loss and loss adjustment expense reserves (Test 10, One Year Reserve Development to Surplus; Test 11, Two Year Reserve Development to Surplus; and Test 12, Estimated Current Reserve Deficiency to Surplus). No exceptional values were noted with respect to the Company's December 31, 2004 loss and loss adjustment expense reserve tests.

I have not reviewed the Company's unearned premium reserves nor have I performed any analysis to

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determine whether a premium deficiency reserve is needed to supplement the unearned premium reserves reported by the Company.

My review was limited to the liability items shown herein and did not include an analysis of any other balance sheet items. I have not examined the assets of the Company, and I have formed no opinion as to the validity or value of these assets. My opinion of the reserves rests upon the presumption that all reserves are supported by valid assets, which have suitably scheduled maturities and/or adequate liquidity to meet the cash flow requirements of the liabilities.

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An actuarial report and any underlying actuarial work papers supporting this actuarial opinion will be retained for a period of seven years in the administrative offices of the Company and will be available for regulatory examination.

My review related only to those reserves identified herein, and I do not express an opinion on the Company's financial statement taken as a whole.

This statement of opinion is solely for the use of and only to be relied upon by the Company and the various state insurance departments with which it files its Annual Statement and is not intended for any other purpose.

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February 25, 2005

WSE/dk

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Attachments

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**Citation Insurance Company
Statement of Actuarial Opinion
As of 12/31/04**

Exhibit A: SCOPE

<u>Loss Reserves:</u>	<u>Amount (000)</u>
A. Reserve for Unpaid Losses (Liabilities, Surplus and Other Funds page, Line 1)	\$ <u>67,352</u>
B. Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Line 3)	\$ <u>11,919</u>
C. Reserve of Unpaid Losses – Direct and Assumed (Schedule P, Part 1, Totals from Cols. 13 and 15)	\$ <u>81,932</u>
D. Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P, Part 1, Totals from Cols. 17, 19 and 21)	\$ <u>13,344</u>
E. The Page 3 write-in item reserve, “Retroactive Reinsurance Reserve Assumed”	\$ <u>0</u>
F. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	\$ <u>N/A</u>

<u>Premium Reserves:</u>	<u>Amount (000)</u>
G. Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	\$ <u>0</u>
H. Reserve for Net Unearned Premiums for Long Duration Contracts	\$ <u>0</u>
I. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	\$ <u>N/A</u>

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As of 12/31/04**

Exhibit B: DISCLOSURES

	<u>Amount (000)</u>
1. Materiality Standard expressed in \$US	\$ <u>11,891</u>
2. Statutory Surplus (Page 3, Line 35)	\$ <u>120,973</u>
3. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (Schedule P – Part 1 Summary, Total of Column 23)	\$ <u>12,053</u>
4. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P	
4 (a) Nontabular Discount	\$ <u>0</u>
4 (b) Tabular Discount	\$ <u>0</u>
5. The net reserves for losses and expenses for the company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	\$ <u>14,822</u>
6. The direct reserves for losses and loss adjustment expenses that the company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss adjustment Expenses lines. *	
6 (a) Asbestos, as disclosed in the Notes to Financial Statements	\$ <u>0</u>
6 (b) Environmental, as disclosed in the Notes to Financial Statements	\$ <u>1,076</u>
7. The Total claims made extended loss and expense reserve (Schedule P Interrogatories).	
7 (a) amount reported as loss reserves	\$ <u>0</u>
7 (b) amount reported as unearned premium reserves	\$ <u>0</u>
8. Other items on which the Appointed Actuary is providing Relevant Comment (list separately)	\$ <u>N/A</u>

* The reserves disclosed in item 6 above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Consultant's Environmental Remediation Legal Liability. Contracts Impairment Liability, Contractor's Liability, and Pollution and