CALIFORNIA EARTHQUAKE AUTHORITY

Financial Statements
December 31, 2008 and 2007

With Independent Auditors' Report Thereon

Table of Contents

LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Governing Board
California Earthquake Authority
Sacramento, California

We have audited the accompanying balance sheet of the California Earthquake Authority (CEA) as of December 31, 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the CEA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the California Earthquake Authority as of December 31, 2007, were audited by other auditors whose report dated October 8, 2008, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of California Earthquake Authority as of December 31, 2008, and the change in its financial position and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis, on pages 2 to 8, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of participating insurer capital contributions, participating insurer written premiums, participating insurer unearned premiums, participating insurer commissions and participating insurer operating costs, on pages 23 to 27, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Larson & Rosenberger LLP

Glendale, California
August 25, 2009

801 NORTH BRAND BOULEVARD, SUITE 1180 + GLENDALE, CALIFORNIA 91203
(818) 334-8623 + FAX (818) 241-7353 + WWW.LARSCO.COM

CALIFORNIA EARTHQUAKE AUTHORITY

Management's Discussion and Analysis

History and Financing

This discussion provides an assessment by management of the financial position, revenues, expenses, changes in net assets, cash flows and liquidity of the California Earthquake Authority (CEA). Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follows Management's Discussion and Analysis.

Following the unprecedented losses from the 1994 Northridge earthquake, many insurance companies either stopped or severely restricted selling new homeowners' insurance policies in California. The insurer response was largely due to state law that requires insurers to offer earthquake insurance when selling or renewing residential property insurance.

In September 1996, legislation to create the CEA was approved by the California State Legislature. On November 26, 1996, the State of California Insurance Commissioner certified that all statutory conditions necessary for the CEA to become operational had been met, and the CEA began writing earthquake policies on December 1, 1996. The CEA is overseen by a three member governing board consisting of the Governor, the Treasurer, and the Insurance Commissioner or their designees. The Speaker of the Assembly and the Chairperson of the Senate Rules Committee or their designees serve on the governing board as nonvoting members. The governing board is advised by an 11 member advisory panel, consisting of members of the public, consumers and insurance industry representatives.

The CEA uses its capital (net assets) to leverage approximately $9.41 billion in claims-paying capacity at December 31, 2008. The CEA's claims-paying capacity is determined from the CEA's net assets, reinsurance coverage, available letters of credit, debt, and post event prospective participating insurance company assessments. The CEA derives its capital from participating insurer capital contributions and from increases in net assets generated from the sale of earthquake insurance policies. The CEA is exempt from federal income tax and from state insurance-premium tax. California Insurance Code section 10089.44 provides, in pertinent part, that "… premiums collected by the authority shall be exempt from collection of the state's insurance premium tax, and the amount of tax foregone by the state shall be considered for all purposes a contribution by the state and its citizens to the capital and operating revenues of the authority."

A Governing Board composed of the State of California's Governor, Treasurer, and Insurance Commissioner oversees the CEA. The Speaker of the Assembly and the Chairperson of the Senate Rules Committee serve as non-voting Board members. An 11-member Advisory Panel advises the Board. The Governing Board establishes premium rates, subject to the prior approval of the Insurance Commissioner.

The CEA has approximately 779,000 policyholders at December 31, 2008, most of whom insure single-family dwellings through the CEA. The CEA offers a base residential earthquake policy to homeowners, which includes coverage for the insured dwelling and limited coverage for contents and loss-of-use if the home or mobile home is uninhabitable due to an earthquake. The CEA also offers policies to condominium unit owners and renters. For an additional premium, CEA policyholders can significantly increase insured limits on contents and for loss of use, and homeowners can lower their CEA policy deductible from 15 percent to 10 percent.

By law, the CEA staff is limited to three contract employees and 25 employees who are subject to civil service provisions. Because of its limited staff size, the CEA uses an extensive network of contract vendors to perform functions on behalf of the CEA.

Using the Report

While the CEA is an instrumentality of the state, the State of California's General Fund is not liable for CEA claims, losses, or other liabilities. However, the CEA meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America. The CEA's financial statements for the years ended December 31, 2008 and 2007 have been prepared using accounting standards applicable to governmental entities. This financial report consists of three financial statements with accompanying notes. The balance sheets, prepared on the accrual basis of accounting, include all assets, liabilities and net assets of the CEA. The statements of revenues, expenses, and changes in net assets, also prepared on the accrual basis, take into account all revenues and expenses for the CEA regardless of when cash is received or paid. The statements of cash flows reflect the actual cash receipts and disbursements for a specified period of time.

Condensed Balance Sheets

The CEA's assets, liabilities and net assets as of December 31 are summarized as follows:

	2008	2007	2006
Assets			
Cash and investments	$ 3,647,869,259	$ 3,375,302,116	$ 2,943,210,743
Premium receivable, net	73,323,947	27,816,455	26,129,153
Securities receivable	7,338	-	122,377,500
Unearned ceded premiums	28,016,192	-	24,138,678
Deferred policy acquisition costs	41,235,858	35,010,913	33,279,534
Other assets	69,934,739	17,432,583	16,823,388
Total assets	$ 3,860,387,333	$ 3,455,562,067	$ 3,165,958,996
Liabilities and Net Assets			
Unearned premiums	$ 303,428,212	$ 257,622,610	$ 244,882,493
Revenue bonds payable	252,000,000	283,500,000	315,000,000
Supplemental reinsurance premiums payable	-	-	10,118,403
Other liabilities	9,609,054	10,402,212	15,882,058
Total liabilities	565,037,266	551,524,822	585,882,954
Net assets:			
Restricted, expendable	97,780,077	62,854,379	28,030,818
Unrestricted	3,197,569,990	2,841,182,866	2,552,045,224
Total net assets	3,295,350,067	2,904,037,245	2,580,076,042
Total liabilities and fund balance	$ 3,860,387,333	$ 3,455,562,067	$ 3,165,958,996

Condensed Balance Sheets (Continued)

Assets

Total assets grew $404.8 million (12%) in 2008 and $289.6 million (9%) in 2007. The 2008 and 2007 increases are primarily due to an increase in net assets of $391.3 million and $324.0 million, respectively. Cash and investments grew $272.6 million (8.1%) and $432.1 million (15%), in 2008 and 2007, respectively. Investments are managed by external managers under the guidance of the CEA. U.S. Treasuries, short-term investments and cash-equivalent securities comprise 100% of the CEA's investment portfolio.

Premium receivable balances increased $45.5 million (164%) and $1.7 million (6%) in 2008 and 2007, respectively. The 2008 increase in premium receivables is due to the CEA's participating insurers transmitting December 2008 written premium to the CEA later than usual because of the implementation and testing of the CEA's new data system that was implemented on December 1, 2008. Gross receivables increased $4.1 million during 2007 primarily due to receiving approximately $2.3 million of premiums from one insurer for the 2006 calendar year offset by an increase in the allowance for uncollectible premium of $2.4 million in 2007. The CEA does not anticipate any unusual collection problems with respect to outstanding premium balances.

The CEA had a prepaid reinsurance premium payable of $28 million at the end of 2008 due to the CEA's 2009 reinsurance program incepting on December 1, 2008. Therefore, the first quarterly payment was due at the inception of the contract leaving two-thirds of the quarterly payment unamortized as of December 31, 2008.

Deferred policy acquisition costs, consisting of unearned participating insurer commissions and operating costs, are deferred and amortized ratably over the terms of the underlying policies. Deferred policy acquisition costs increased $6.2 million (18%) in 2008 that correspond with the increase in premiums written and unearned premiums for the year. Deferred policy acquisition costs only increased $1.7 million (5%) during 2007 that reflect a full year's impact of the increase in the operating cost reimbursement rate from 2.8% to 3.59%, which was effective July 1, 2006.

Liabilities

Unearned premiums represent the pro-rata portion of the premiums written related to the remaining terms of policies in force. Unearned premiums increased $45.8 million (18%) and $12.7 million (5%) in 2008 and 2007, respectively. The 2008 increase is due to the increase in written premiums. The 2007 increase is primarily due to an increase in written premium from supplemental coverages caused by a rate increase, which became effective February 2007, and a 16% increase in the number of CEA policyholders selecting the supplemental coverages.

Revenue bonds payable decreased by $31.5 million (11%) in 2008 resulting from the annual 10% principal reduction payment. The bonds were initially issued in June 2006, totaling $315 million. The revenue bonds bear interest at a fixed rate of 6.196% and mature in 2016 requiring annual 10% principal reduction payments.

Other liabilities include claims and claims expense reserves, which are not significant since California has not suffered a major earthquake during the CEA's existence. Other liabilities remained at relatively the same amount for 2008 as for 2007 with a decrease of $0.8 million (8%) in 2008. The 2007 $5.5 million (35%) decrease is due to a $4.1 million decrease in unearned supplemental commission income and a decrease in accounts payable and accrued expenses of $1.4 million.

Condensed Balance Sheets (Continued)

Net Assets

The CEA classifies its net assets into two components, restricted-expendable and unrestricted net assets. Restricted net assets include the net assets of the Earthquake Loss Mitigation Fund (Mitigation Fund), unspent bond proceeds restricted for payment of claims as defined in the debt agreements and funds held for debt service by the revenue bond trustee offset by underlying debt, and investment income earned on the bond proceeds restricted as pledged revenue for debt service. The Mitigation Fund was created by statute and related funds must be used solely for the establishment and operation of earthquake mitigation programs. The remaining net assets of the CEA are classified as unrestricted. The CEA's net assets grew $391.3 million (13%) and $324.0 million (13%) in 2008 and 2007, respectively. The 2008 increase was comprised primarily of an underwriting profit of $206.0 million, an increase in unrealized gains on investments of $48.1 million, premium tax contributions from the State of California of $11.2 million, and a $46.5 million capital contribution from Safeco Insurance Company of America (Safeco) that joined the CEA as of December 1, 2008. In 2007, the primary reasons for the increase were underwriting profit of $192.8 million, investment income of $119.9 million, premium tax contribution from the State of California of $10.9 million, and other income of $0.4 million.

Condensed Statements of Revenue, Expenses, and Changes in Net Assets

The CEA's operating results are presented in the following table:

	2008	%	2007	%	2006	%
Underwriting income:						
Premium written	$ 546,307,715	100%	$ 499,286,834	100%	$ 501,215,680	100%
Less premium ceded – reinsurance	(185,054,138)		(174,153,907)	65%	(166,951,869)	
Net premium written	361,253,577	66%	325,132,927		334,263,811	67%
Change in net unearned Premiums	(45,805,600)		(36,878,796)		21,421,634	
Net premium earned	315,447,977	58%	288,254,131	58%	355,685,445	71%
Other underwriting income:						
Supplemental commission income, net	-		4,144,682		7,589,627	
Expenses:						
Claims and claims expense	32,410		12,920		(25,403)	
Mitigation fund expenses	440,730		1,593,569		1,144,722	
Other underwriting expenses	109,024,673		98,041,276		99,037,769	
Total expenses	109,497,813	20%	99,647,765	20%	100,157,088	20%
Underwriting profit	205,950,164	38%	192,751,048	39%	263,117,984	52%
Net investment income	127,242,391		119,884,374		117,524,144	
Capital contributions	46,500,000		-		-	
Other income	11,620,267		11,325,781		12,050,470	
Increase in net assets	391,312,822	72%	323,961,203	65%	392,692,598	78%
Net assets, beginning of year	2,904,037,245		2,580,076,042		2,187,383,444	
Net assets, end of year	$ 3,295,350,067		$ 2,904,037,245		$ 2,580,076,042	

Condensed Statements of Revenue, Expenses, and Changes in Net Assets (Continued)

The increase in net assets was $391.3 million in 2008, which resulted in a net profit margin of 72%, and $324.0 million in 2007, which resulted in a net profit margin of 65%. The CEA's net premiums written increased $36.1 million (11%) in 2008 and decreased $9.1 million (2.7%) in 2007. The 2008 increase is due to a $47.0 million (9%) growth in written premiums while premiums ceded for reinsurance only grew $10.9 million (6%). The 2007 decrease in net premiums written was largely due to $7.2 (4%) million increase in reinsurance costs while premiums written decreased by $1.9 million (0.4%).

The variance in the change in unearned premiums decreased $8.9 million and $58.3 million in 2008 and 2007, respectively. The 2008 variance is due to an increase in unearned premium as a result of an increase in written premium. The 2007 variance is due to a $30.7 million decrease in the change in unearned premiums attributable to a full year of the decrease in rates for base policies, and a $27.6 million decrease in the change in unearned premiums ceded as a result of the expiration of the supplemental quota-share reinsurance contract.

Supplemental commission income was zero in 2008 and decreased $3.4 million in 2007 as a result of the CEA's discontinuing the supplemental quota-share reinsurance contract. The CEA now purchases reinsurance related to supplemental coverages through aggregate excess-of-loss reinsurance contracts that are combined with the CEA's base reinsurance program. Due to regulation changes by the California Department of Insurance that were effective May 2008, the CEA is no longer required to finance its supplemental coverages separately from the CEA's base policies. Therefore, with the termination of the 2008 supplemental reinsurance contracts on November 30, 2008, the CEA finances both its base policies and supplemental coverages using one combined financial structure.

In 2008 and 2007, the CEA's claims and claims expenses were essentially zero due to California not experiencing any significant earthquakes.

In 2008, the increase in other underwriting expense of $11.0 million (11%) is largely in part due to a $10.8 million decrease in investment income from revenue bond proceeds that directly offsets financing expenses for the revenue bonds. The lower return on investments was a result of the financial market conditions in general. In 2007, the decrease of $1.0 million in other underwriting expenses is primarily due to a $0.8 million decline in reinsurance broker commissions and pro-forma premium taxes.

Net investment income increased $7.4 million (6%) in 2008. The increase was largely due to a $48.1 million increase in unrealized investment gains on U.S. Treasuries. In 2007, net investment income was 2% higher than in 2006, a difference of $2.4 million, due to rising interest rates on CEA's investment portfolio, offset by a loss of value on a commercial paper security. At December 31, 2007, the CEA wrote down approximately 70% of the value of a commercial paper security due to impairment resulting in an unrealized loss of $43.8 million.

The CEA intends to hold all investments to maturity unless there is an earthquake or series of earthquakes causing significant damage in California where funds are needed to pay policyholder claims.

Other income remained relatively flat in 2008 and 2007.

Condensed Statements of Cash Flows

Primary sources of cash included cash flows from operations and capital contributions received from participating insurers. The primary use of cash was for operating expenses, repayment of debt, and the purchase of short-term and long-term investment securities.

The cash flows of the CEA are summarized as follows:

	2008	2007	2006
Net cash provided by operating activities	$ 182,507,012	$ 221,793,577	$ 262,097,760
Net cash (used in) provided by noncapital financing activities	(31,122,228)	(31,098,789)	315,406,987
Net cash provided by capital and related financing activities	2,695,377	766,167	675,963
Net cash (used in) provided by investing activities	(2,189,968,563)	26,986,142	48,251,948
Net increase in cash and cash equivalents	(2,035,888,402)	218,447,097	626,432,658
Cash and cash equivalents, beginning of year	2,148,183,917	1,929,736,820	1,303,304,162
Cash and cash equivalents, end of year	$ 112,295,515	$ 2,148,183,917	$ 1,929,736,820

Cash from operating activities decreased $39.3 million (18%) in 2008 and $40.3 million (15%) in 2007. The 2008 decrease in cash resulted from increased payments for reinsurance of $28.8 million and an increase in payments for operating expenses of $16.5 million. The 2007 decrease in cash provided by operating activities is due to an $18.1 million increase in premiums ceded for reinsurance and $4.1 million increase in payment for operating expenses. Additional decreases were related to a $9.8 million decrease in cash received from premiums and an $8.2 million decrease supplemental premium income.

Cash used in non-capital financing activities for 2008 and 2007 is a result of the CEA annual principal reduction payment of $31.5 million for its outstanding revenue bonds.

The change in cash provided by capital and related financing activities was $1.9 million (252%), which was a result of a $3.9 million capital contribution installment received from Safeco, offset by $1.9 million cash outflow for the acquisition of equipment which consisted largely of software and hardware for the CEA's new policy and claims information system. The 2007 increase was due to a decrease in the amount of fixed assets the CEA acquired.

Cash flows used by investing activities in 2008 were $2.2 billion, which was a result of the transition of the CEA's investment portfolio from securities maturing in less than 90 days and classified as cash-equivalent securities to short-term and long-term investments. The transition resulted in a CEA portfolio that consisted almost entirely of U.S. Treasuries of longer duration to protect against the credit risk that management perceived was in the financial market during 2008 and to increase the CEA's investment yield by increasing the duration of the portfolio without sacrificing liquidity. The 2007 decrease in the change of cash provided by investing activities is due to an increase of $842.1 million from proceeds from maturing investments, offset by an increase in securities purchased of $874.1 million, and an increase of $10.7 million in net investment income, due to increased returns in U.S. Treasuries.

Liquidity

The CEA maintains a highly liquid investment portfolio in order to be able to quickly pay claims in the event of a large earthquake. As of December 31, 2008, 3.0% of the portfolio was scheduled to mature in 90 days or less, securities maturing between 91 days and one year accounted for 34.6% of the portfolio, while securities maturing between one to five years accounted for the remaining 59.38% of the portfolio, with a total portfolio modified duration of less than one year. Based on earthquake modelers' results of analyzing the CEA's portfolio, management believes the CEA has sufficient liquidity to meet its obligations as they become due resulting from an earthquake or series of earthquakes. The probability of an earthquake or series of earthquakes occurring that would deplete CEA's base policy liquidity and the associated claims-paying capacity is estimated to be .184% in any one year. The CEA pays policyholder claims from its claims-paying capacity. The following depicts the CEA's claims-paying capacity in effect as of December 31, 2008, in millions of dollars:

CEA capital available for claims	$	3,231
Revenue bond proceeds		311
Risk transfer financial products (reinsurance only at December 31, 2008)		3,100
Post Earthquake Industry Assessments (2nd Layer)		1,465
Post Earthquake Industry Assessments (New Layer)		1,304
Total	$	9,411

Under California's Insurance Code, the CEA has the ability to assess the participating insurers on a post-event basis if claim payments to policyholders reach certain levels, as defined. Additionally, the CEA is able to claim amounts under reinsurance contracts when policyholder claims reach certain levels, as defined.

CALIFORNIA EARTHQUAKE AUTHORITY

Balance Sheets
As of December 31, 2008 and 2007

	2008	2007
Assets		
Cash and investments:		
Cash and cash equivalents	$ 69,288,390	$ 1,801,878,207
Restricted cash	43,007,125	346,305,710
Restricted Investments	310,670,234	-
Investments	3,224,903,510	1,227,118,199
Total cash and investments	3,647,869,259	3,375,302,116
Premiums receivable, net of allowance for doubtful accounts of $2,646,961 and $3,743,214	73,323,947	27,816,455
Assessments receivable	43,877,263	2,190,507
Interest receivable	23,800,212	15,052,142
Securities receivable	7,338	-
Unearned ceded premiums	28,016,192	-
Deferred policy acquisition costs	41,235,858	35,010,913
Equipment, net	2,154,771	171,122
Other assets	102,493	18,812
Total assets	$ 3,860,387,333	$ 3,455,562,067
Liabilities and Net Assets		
Unearned premiums	$ 303,428,212	$ 257,622,610
Claims and claim expense reserves	-	23,928
Revenue bond payable	252,000,000	283,500,000
Revenue bond interest payable	7,772,940	8,744,559
Accounts payable and accrued expenses	1,836,114	1,633,725
Total liabilities	565,037,266	551,524,822
Net assets:		
Restricted, expendable	97,780,077	62,854,379
Unrestricted	3,197,569,990	2,841,182,866
Total net assets	3,295,350,067	2,904,037,245
Total liabilities and net assets	$ 3,860,387,333	$ 3,455,562,067

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2008 and 2007

	2008	2007
Underwriting income:		
Premiums written	$ 546,307,715	$ 499,286,834
Less premiums ceded	(185,054,138)	(174,153,907)
Net premiums written	361,253,577	325,132,927
Change in unearned premiums	(45,805,600)	(12,740,118)
Change in unearned premiums ceded	-	(24,138,678)
Net change in unearned premiums	(45,805,600)	(36,878,796)
Net premiums earned	315,447,977	288,254,131
Other operating income:		
Supplemental commission income, net	-	4,144,682
Total revenues	315,447,977	292,398,813
Expenses:		
Claim and claims expense	32,410	12,920
Participating insurer commissions	50,082,113	48,693,448
Participating insurer operating costs	17,734,835	17,474,376
Reinsurance broker commissions	5,500,003	5,785,043
Pro forma premium taxes	11,242,495	10,924,570
Financing expenses, net	13,178,142	2,364,582
Mitigation fund expenses	440,730	1,593,569
Other underwriting expenses	11,287,085	12,799,257
Total expenses	109,497,813	99,647,765
Underwriting profit	205,950,164	192,751,048
Net investment income	127,242,391	119,884,374
Other income	377,772	401,211
Contributed Capital	46,500,000	-
State of California premium tax contribution	11,242,495	10,924,570
Increase in net assets	391,312,822	323,961,203
Net assets, beginning of year	2,904,037,245	2,580,076,042
Net assets, end of year	$ 3,295,350,067	$ 2,904,037,245

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Cash received from premiums	$ 500,800,225	$ 497,599,531
Cash payments for premiums ceded - reinsurance	(213,070,330)	(184,272,310)
Cash payments for operating expenses	(105,222,883)	(88,724,947)
Cash payments to employees for service	-	(2,808,697)
Net cash provided by operating activities	182,507,012	221,793,577
Cash Flows from Noncapital Financing Activities		
Repayment of revenue bonds	(31,500,000)	(31,500,000)
Other income	377,772	401,211
Net cash used in investing activities	(31,122,228)	(31,098,789)
Cash Flows from Capital and Related Financing Activities		
Capital contributions received from participating insurers	4,813,244	938,244
Acquisition of equipment	(2,117,867)	(172,077)
Net cash provided by capital and related financing activities	2,695,377	766,167
Cash Flows from Investing Activities:		
Proceeds from maturities of investments	371,545,560	1,637,952,500
Purchases of investments	(2,632,885,091)	(1,735,931,341)
Net investment income	71,378,306	124,964,983
Change in securities receivable	(7,338)	-
Net cash (used) provided by investing activities	(2,189,968,563)	26,986,142
Net (decrease) increase in cash and cash equivalents	(2,035,888,402)	218,447,097
Cash and cash equivalents, beginning of year	2,148,183,917	1,929,736,820
Cash and cash equivalents, end of year	$ 112,295,515	$ 2,148,183,917
Reconciliation to statement of net assets:		
Cash and cash equivalent	$ 69,288,390	$ 1,801,878,207
Restricted cash	43,007,125	346,305,710
	$ 112,295,515	$ 2,148,183,917

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2008 and 2007

	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Underwriting profit	$ 205,950,164	$ 192,751,048
Adjustments to reconcile underwriting profit to net cash provided by operating activities:		
Depreciation on equipment	134,220	182,509
Pro forma premium tax expense	11,242,495	10,924,570
Changes in operating assets and liabilities:		
Premiums receivable	(45,507,492)	(1,687,302)
Unearned premiums	45,805,602	12,740,117
Deferred policy acquisition costs	(6,224,945)	(1,731,379)
Equipment, net (2008 disposals were fully depreciated)	-	82,040
Other assets	(83,682)	(8,455)
Supplemental reinsurance premiums payable	-	(10,118,403)
Unearned ceded premiums	(28,016,192)	24,138,678
Claim and claim expense reserves	(23,928)	12,920
Unearned supplemental commission income	-	(4,144,682)
Revenue bond interest payable	(971,619)	53,980
Accounts payable and accrued expenses	202,389	(1,402,064)
Net cash provided by operating activities	$ 182,507,012	$ 221,793,577

Non-cash investing, capital and financing activities

The CEA holds investments that experience changes in fair value from year to year. Net unrealized appreciation in the fair value of investments, which is included as a component of net investment income in the Statements of Revenues, Expenses and Changes in Net Assets, was $48.1 million and $28.5 million in 2008 and 2007, respectively.

See accompanying notes to financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The California Earthquake Authority (CEA) is a privately financed, publicly managed authority that provides insurance coverage for earthquake damage to residential property owners, condominium owners, mobile homeowners, and renters in the state of California. In September 1996, legislation to create the CEA was approved by the California State Legislature. On November 26, 1996, the State of California Insurance Commissioner certified that all statutory conditions necessary for the CEA to become operational had been met, and the CEA began writing earthquake policies on December 1, 1996. The CEA is overseen by a three-member governing board consisting of the Governor, the Treasurer, and the Insurance Commissioner or their designees. The Speaker of the Assembly and the Chairperson of the Senate Rules Committee or their designees serve on the governing board as nonvoting members. The governing board is advised by an 11-member advisory panel, consisting of members of the public, consumers and insurance industry representatives.

CEA policies are sold to policyholders by participating insurers of the CEA. Insurance companies admitted to write residential property insurance in California and who elected to become participating members of the CEA signed Insurer Participation Agreements with the Insurance Commissioner and the CEA. Under these agreements, participating insurers act as independent contractor agents on behalf of the CEA by performing policy and claims services which include policy issuance, premium collection, and claims adjustment. Under the agreements, the CEA reimburses participating insurers for non-claims related costs incurred by these companies in servicing CEA policies. The operating cost reimbursement is 3.43% of written premium (as of June 1, 2008). The producer commission is equal to 10.0% of written premium of all new and renewal CEA policies. Additionally, participating insurers receive reimbursement for expenses associated with servicing CEA claims equal to 9.0% of paid claims. As of December 31, 2008, there are 21 participating insurers of which just 16 insurers are writing CEA policies. A small number of participating insurers, four, account for 82% of CEA policies.

The CEA has eligibility requirements that compel the CEA to issue and renew policies if the insured structure has no pre-existing, non-cosmetic earthquake damage and the policyholder has a companion policy of residential property insurance from a participating insurer.

In the event that a natural disaster program is enacted by Congress, the Advisory Panel is required to prepare a plan to dissolve the CEA or to conform the sections of the California Insurance Code regarding the CEA to the federal program and recommend an action plan to the CEA Governing Board and the California State Legislature.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Basis of Accounting

While the CEA is an instrumentality of the state, the State of California's General Fund is not liable for CEA claims, losses, or other liabilities. However, the CEA meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America.

The CEA is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The CEA uses the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded when incurred. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the period, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates applied in the preparation of the accompanying financial statements.

In accordance with governmental accounting standards, the CEA applies all applicable statements issued by the Governmental Accounting Standards Board (GASB). The CEA applies all of the following pronouncements issued on or before November 30, 1989: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements. In addition, the CEA has elected to apply statements and related interpretations issued by the Financial Accounting Standards Board after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Revenue Recognition

Premiums are recognized as earned on a pro rata basis over the policy contract period. All premium rates charged by the CEA must be approved by the State of California Insurance Commissioner before use. The CEA's base-policy rates were reduced by a statewide weighted average of 22.1% which went into effect July 1, 2006. However, supplemental coverages rates increased by a statewide average of 30.2% under a two-year phase in plan: a 15% increase in February 2007 and 15.2% increase in February 2008. The CEA submitted a plan to the insurance commissioner to combine the base policy with the supplemental coverages. This plan has been approved, and the change to California insurance regulations took effect May 2008.

Unearned premiums represent amounts written which relate to coverage in future periods.

Premiums paid or accrued by the CEA under reinsurance agreements are accounted for as a reduction in the related premium revenue earned and amortized over the remaining reinsurance contract period. Unearned ceded premium is the pro rata portion of premiums ceded applicable to the unexpired period of reinsurance coverage.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the CEA considers investments in certificates of deposit, U.S. treasuries, commercial paper, corporate bonds, bankers' acceptances, and repurchase agreements with original maturities of three months or less, to be cash equivalents. Restricted cash and cash equivalents are comprised of unspent bond proceeds, debt service sinking funds and monies transferred to the Earthquake Loss Mitigation Fund (Mitigation Fund).

Investments

Investments consist primarily of certificates of deposit, U.S. treasuries, commercial paper, repurchase agreements, corporate bonds, and bankers' acceptances, as authorized by the 1996 legislation creating the CEA. All investments are reported at fair value in the balance sheets. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, and is determined from published data provided by the exchanges, computerized pricing sources, securities custodians, and other authoritative sources. The CEA is permitted to invest in securities eligible in California Government Code section 16430. Restricted investments are comprised of unspent bond proceeds and monies transferred to the Mitigation Fund.

Deferred Policy Acquisition Costs

Acquisition costs, consisting of participating insurer commissions and operating costs, are deferred and amortized over the terms of the underlying policies. Deferred acquisition costs are limited to the estimated recoverable value of such costs. The determination of estimated recoverable value gives effect to the premium to be earned, losses and loss adjustment expenses incurred, investment income to be earned, and certain other costs expected to be incurred as the premium is earned.

Claims and Claim Expense Reserves

Reserves for insurance claims and claim adjustment expenses include the accumulation of case estimates for claims reported, claims incurred but not reported, and estimates of expenses for investigating and adjusting all incurred claims. The reserve is established at a level that management estimates to be sufficient to satisfy those claims. Estimates are revised as more information becomes available. Since the CEA’s inception, there has not been a major earthquake. If a major California earthquake were to occur, there would be a significant increase in the reserve for claims and claim adjustment expenses. The CEA has a minimal reserve for unpaid claims reported as of December 31, 2008.

If the CEA's Governing Board determines that the CEA's net assets, additional participating insurer capital contributions and reinsurance proceeds are exhausted and that no source of additional funds is available to the CEA to pay policyholder claims, the Governing Board is required to develop a plan for approval by the State of California Insurance Commissioner to pay policyholder claims on a pro rata or installment basis. In such circumstances, the insurance code states that the commissioner shall order the CEA to cease renewing or accepting new earthquake insurance policies.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Participating Insurer Capital Contributions

Each insurer that elected to participate in the CEA during its first year of operations was required to contribute as its share of the CEA's initial operating capital, an amount equal to $1,000,000 multiplied by the percentage representing that insurer's residential earthquake insurance market share as of January 1, 1994. Insurers that elect to participate in the CEA after December 1, 1996, are required to make an initial capital contribution calculated using their residential earthquake insurance market share as of January 1, 1994, or the latest date for which such market share information is available to the CEA, whichever contribution amount is greater. As of December 31, 2008, participating insurer capital contributions totaled $751.1 million and were 94% funded.

The California Insurance Code (Code) states that, subject to certain maximum limits as set forth in the Code, the CEA has the power to make additional assessments of participating insurers in the event of a major California earthquake, subject to the approval of the State of California Insurance Commissioner. The CEA's ability to make certain additional assessments for the 1st industry assessment layer pertaining to the participating insurers expired December 1, 2008. However, during 2007 CEA worked with the state legislature and participating insurers to establish a new industry assessment layer, which commences on December 1, 2008, with a current maximum assessment of $1.3 billion.

As of December 31, 2008, participating insurers have a cumulative residential property insurance market share of approximately 74.81% of the total residential property insurance market in California. If participating insurers withdraw their participation in the CEA such that the cumulative residential property insurance market share is less than 65%, the Insurance Commissioner is required by law to make recommendations to the California Legislature for the continuation or termination of the CEA.

Net Assets

The CEA classifies its net assets into two components, restricted-expendable and unrestricted net assets. Restricted net assets include the net assets of the Mitigation Fund, unspent bond proceeds restricted for payment of claims as defined in the debt agreements and funds held for debt service by the revenue bond trustee offset by underlying debt, and investment income earned on the bond proceeds restricted as pledged revenue for debt service.

Income Taxes

In a private letter ruling dated November 8, 1996, the Internal Revenue Service determined the CEA to be an integral part of the State of California for federal income tax purposes. As such, the CEA is exempt from federal income tax.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

State of California Premium Tax Contributions

California Insurance Code section 10089.44 provides that "notwithstanding any other provision of law, premiums collected by the authority shall be exempt from collection of the state's insurance premium tax, and the amount of tax foregone by the state shall be considered for all purposes a contribution by the state and its citizens to the capital and operating revenues of the authority." As a result, the amounts that the state would otherwise impose on the CEA as premium tax are collected by the CEA as premium and retained by the CEA as a contribution by the state; as premium is earned, the portion attributable to the premium-tax exemption is included in the CEA's net assets. State premium-tax-exemption contributions were $11,242,495 and $10,924,570 for the years ended December 31, 2008 and 2007, respectively. Since inception of the CEA to December 31, 2008, state premium-tax contributions total $115,640,146.

2. Cash and Investments

As of December 31, 2008 and 2007, the CEA had the following cash and investments:

	December 31, 2008					
	Investment Maturities (in Years)					
	Less than 1	1-2	2-3	3-4	4-5	Total
U.S. Treasuries	$ 1,451,231,462	$ 1,187,153,929	$ 314,404,005	$ 273,194,655	$ 389,204,740	$ 3,615,188,791
U.S. agencies	2,099,790	-	-	-	-	2,099,790
U.S. Gov't money market funds	27,023,133	-	-	-	-	27,023,133
Cash	3,557,545	-	-	-	-	3,557,545
Total	$ 1,483,911,930	$ 1,187,153,929	$ 314,404,005	$ 273,194,655	$ 389,204,740	$ 3,647,869,259

	December 31, 2007					
	Investment Maturities (in Years)					
	Less than 1	1-2	2-3	3-4	4-5	Total
U.S. Treasuries	$ 38,658,539	$ 121,504,987	$ 241,108,711	$ 249,852,613	$ 558,166,859	$ 1,209,291,709
U.S. agencies	51,002,039	-	-	-	-	51,002,039
U.S. Gov't money market funds	88,776,786	-	-	-	-	88,776,786
Commercial paper	470,238,069	-	-	-	-	470,238,069
Corporate bonds	179,270,894	-	-	-	-	179,270,894
Banker's acceptance	24,087,069	-	-	-	-	24,087,069
Negotiable certificate of deposit	479,885,550	-	-	-	-	479,885,550
Repurchase Agreements	872,750,000	-	-	-	-	872,750,000
Total	$ 2,204,668,946	$ 121,504,987	$ 241,108,711	$ 249,852,613	$ 558,166,859	$ 3,375,302,116

2. Cash and Investments (Continued)

Interest Rate Risk

As a means of limiting its exposure to fair value losses resulting from rising interest rates, the CEA's investment policy limits all securities purchased to a maximum maturity duration of 181 days, except for U.S. Treasuries. U.S. Treasuries are allowed to have maturities of up to 5 years as long as the CEA's combined portfolio does not exceed a maximum modified duration of 1.75 years. As of December 31, 2008, the CEA's combined portfolio has a maximum modified duration of less than 1 year.

Credit Risk

The CEA investment policy limits investments in banker's acceptances and commercial paper to issuers with the highest rating category by all rating agencies that rate the issuer. The policy limits investments in corporate bonds to the top three ratings issued by nationally recognized rating services. As of December 31, 2008, over 99% of the CEA portfolio consisted of U.S. Treasuries with less than 1% of the portfolio in U.S. Agency securities. On August 8, 2007, the CEA purchased the commercial paper, which was then rated A1+ by Standard & Poors (S&P) and P1 by Moody's Investor Service. The security was downgraded to A3 (from superior to adequate) by S&P without prior notice on August 21, 2007. As of December 31, 2007, the security was no longer rated. During the year ended December 31, 2007, the CEA recorded a $44 million loss on the commercial paper security, representing 70% of the original investment. On September 18, 2008, the assets underlying the commercial paper security were sold at auction. As a result, the CEA received 24% of its original investment. During 2008, the CEA recognized an additional $3.6 million loss, representing 6% of the original investment. The CEA carries this interest in the commercial paper as zero until all transactions relating to the security are finalized.

Concentration of Credit Risk

There is no concentration of investments in any one non U. S. governmental issuer that represents 5% or more of total investments.

2. Cash and Investments (Continued)

Investment Income

Total investment income is comprised of interest, realized gains and losses, and unrealized gains and losses due to changes in the fair value of investments held at year end. Investment income earned on unspent bond proceeds are offset against related interest expense and classified as financing expenses, net on the statement of revenues, expenses, and changes in net assets.

Investment income for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Certificates of deposit	$ 5,704,220	$ 24,728,006
US agency securities and government money market accounts	1,331,104	4,509,699
Repurchase agreements	5,824,229	42,725,030
Corporate bonds	2,208,033	7,107,533
US treasuries	69,207,914	48,464,454
Other short-term investments	474,867	25,991,046
Interest income	84,750,367	153,525,768
Change in fair value of investments	48,084,767	(15,257,041)
Less investment expenses	(1,987,600)	(2,252,651)
Net investment income	$ 130,847,534	$ 136,016,076

The following is a reconciliation of investment income to the statements of revenues, expenses, and changes in net assets:

	2008	2007
Investment income included in financing expenses	$ 3,605,143	$ 16,131,702
Net investment income	127,242,391	119,884,374
Total investment income	$ 130,847,534	$ 136,016,076

The change in fair value of investments for the years ended December 31, 2008 and 2007 is calculated as follows:

	2008	2007
Fair value of investments at the end of year	$ 3,535,573,744	$ 1,227,118,199
Add: Proceeds of investments matured	371,545,560	1,515,575,000
Add: Amortization of premium (discount)	19,787,892	(8,544,976)
Less: Cost of investments purchased	(2,632,885,091)	(1,735,931,341)
Less: Fair value of investments at the beginning of year	(1,227,118,199)	(1,013,473,923)
Change in fair value of investments	$ 66,903,906	$ (15,257,041)

2. Cash and Investments (Continued)

Fair Value of Financial Instruments

The recorded value of other receivables and payables which are financial instruments approximates fair value due to the short-term nature of these assets and liabilities.

3. Long-Term Debt

The CEA issued its first long-term debt, $315 million in fixed rate revenue bonds on July 20, 2006 to enhance claims paying capacity. The following reflects activity in the long-term debt accounts during the years ended December 31, 2008 and 2007, respectively:

	2008	2007
Balance at January 1,	$ 283,500,000	$ 315,000,000
Payments made in July	(31,500,000)	(31,500,000)
Balance at December 31,	$ 252,000,000	$ 283,500,000

The net proceeds from the revenue bonds were deposited into the Claims Paying Account and were used to purchase investments according to CEA's investment policy and procedures. The proceeds will only be used for future payments of earthquake policyholder claims and related loss adjustment expenses and may not be used to repay principal and interest of the debt. Revenue bond proceeds may be used for payment of claims after the CEA exhausts its capital available for claims and any capacity made available by reinsurance contracts. Repayment of debt does not affect the level of the Claims-Paying Account.

The bonds are payable from future pledged policyholder premiums. The bonds bear interest at 6.169% and are federally taxable. Interest is payable semi-annually, beginning January 1, 2007. The bonds are due July 1, 2016, but are subject to annual mandatory sinking-fund payments as indicated below. The bonds are subject to optional redemptions at any time prior to maturity, in whole or in part, at the option of the CEA. The CEA is subject to certain bond covenants, the most restrictive of which requires a debt service coverage ratio, as defined, of 3:1.

Future scheduled debt service payments, including mandatory sinking fund payments, for the CEA's long-term debt are as follows as of December 31, 2008:

	Principal	Interest	Total
2009	$ 31,500,000	$ 14,575,263	$ 46,075,263
2010	31,500,000	12,631,028	44,131,028
2011	31,500,000	10,687,793	42,187,793
2012	31,500,000	8,744,557	40,244,557
2013	31,500,000	6,801,323	38,301,323
2014 - 2016	94,500,000	8,744,558	103,244,558
Total requirements	$ 252,000,000	$ 62,184,522	$ 314,184,522

3. Long-Term Debt (Continued)

Fair Value

The estimated fair value of the CEA's long-term debt, based on quoted market prices for the same or similar issues at December 31, 2008 is as follows:

Carrying amount	$ 252,000,000
Fair value	249,631,200

4. Reinsurance

The CEA cedes risk to reinsurers under catastrophe excess-of-loss reinsurance contracts for purposes of limiting its maximum exposure. All contracts provide coverage for losses as well as allocated loss adjustment expenses. Although the ceding of risk does not discharge the CEA from its primary responsibility to its policyholders, the insurance company that assumes the coverage assumes responsibility to reimburse the CEA for the related liability. Management believes that its reinsurers are and will continue to be able to satisfy their obligations under the reinsurance agreements. To date, losses have been recovered only under the supplemental coverages reinsurance contracts. In the event that legislation is enacted by the State of California that has the effect of increasing a reinsurer's exposure to loss under the reinsurance contract, a reinsurer has the right to cancel the reinsurance contract.

The 2008 and 2007 aggregate excess reinsurance contracts allowed for an adjustment of premium, based on the average aggregate insurance in force and the exposure adjustment limit, as defined in the contracts. As of December 31, 2008 in accordance with these terms, the CEA did not have a premium adjustment expense against the contract. For 2008 and 2007, the reinsurance contracts provided maximum limits of $2.3 billion and $2.5 billion, respectively, at varying attachment points. The 2008 contracts had a one-month early termination provision which the CEA exercised.

In 2009, the CEA continues to cede insurance to reinsurers under catastrophe excess-of-loss reinsurance contracts. Effective December 1, 2008, the CEA entered into reinsurance contracts that provide a maximum limit of $3.1 billion. The contracts are 13-month contracts with a one-month early termination provision.

5. Statutory Compliance

The State of California Insurance Code limits CEA's "operating expenses" to 3% of its "premium income." In calculating this limitation, the CEA has determined that its premium income is its reported premiums written and that its operating expenses do not include certain start-up expenses and certain credits and payments, including payments to reinsurers, payments to investment managers and advisors, payments to participating insurers, or payments of agent commissions. Operating expenses, as determined by the CEA, totaled $10.8 million and $7.7 million for the years ended December 31, 2008 and 2007, respectively, and did not exceed 3% of premiums written.

6. Mitigation Fund

California Insurance Code Section 10089.37 created the Earthquake Loss Mitigation Fund (Mitigation Fund) as a "sub-account of the CEA". According to statute, the Mitigation Fund must be used solely for the establishment and operation of an earthquake loss mitigation program. The Insurance Code requires the CEA annually transfer an amount equal to the lesser of 5% of investment income or $5 million to the Mitigation Fund if deemed actuarially sound by a consulting actuary. The transfer and setting aside of those monies into the Mitigation Fund sub-account have been formally approved by the CEA Governing Board. It is the opinion of the general counsel of the CEA and of the CEA's outside counsel that the monies that reside in the Mitigation Fund sub-account within the CEA are by statute not available to pay policyholder or other claims against the CEA.

As of December 31, 2008 and 2007, the balance sheets include expendable restricted net assets related to the Mitigation Fund totaling $20,268,514 and $16,432,137, respectively. The expendable restricted net assets of the Mitigation Fund as of December 31, 2008, include the potential annual transfer amount of $4,235,015, which is subject to actuarial review and formal approval of the CEA's Governing Board as discussed in the previous paragraph.

7. Retirement Plan, Deferred Compensation and Post-Employment Benefits

Defined Benefit Plans

The State of California sponsors a defined benefit pension plan covering all CEA civil-service employees. The benefits are based on the highest 12 consecutive months compensation during their employment. The state's funding policy is to make the minimum annual contributions required by applicable regulations and charges the CEA for its allocable share of such contributions based on a percentage of payroll. The CEA has no legal obligation for benefits under this plan.

Defined Contribution Plans

The CEA sponsors a defined contribution savings plan for contract employees. Employees contribute 5% of compensation. The CEA contributes 12.71% of the employee's compensation. The contributions are funded semi-annually and allocated to the CEA based on employee contributions. The CEA has no legal obligation for benefits under this plan.

Post-Employment Benefits

The CEA has no obligations to former employees for benefits after their employment other than compensation related to earned vacation and severance. The liability for earned but untaken leave, such as vacation, personal leave days, or holiday credit, has been accrued to contract employees

SUPPLEMENTARY INFORMATION

CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Capital Contributions
From Inception through December 31, 2008

State Farm General Insurance Company	$	249,188,275
Allstate Insurance Company		145,612,517
The Fire Insurance Exchange (Farmers)		143,280,000
United Services Automobile Association[1]		58,992,512
California State Automobile Association Inter-Insurance Bureau[2]		39,013,494
Safeco Insurance Company of America[3]		46,500,000
California FAIR Plan Association		15,029,487
Interinsurance Exchange of the Automobile Club		14,443,651
CNA/Continental[4]		13,924,611
Prudential[4]		11,531,455
Liberty Mutual Fire Insurance Company[5]		6,699,434
Foremost Property and Casualty Insurance Company		4,614,304
Mercury Casualty Company		1,406,238
Armed Forces Insurance Exchange		783,685
GuideOne (formerly Preferred Risk)[4]		123,133
Merastar[6]		-
Homesite Insurance Company of California		-
Pacific National Insurance[4]		-
Encompass Insurance Company		-
Glen Falls Insurance Company[4]		-
Commerce West Insurance Company		-
Total	$	751,142,796

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

[3]Joined the CEA as of December 1, 2008

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

[6]Withdrew from the CEA as of May 1, 2009

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Premiums Written
For the Years Ended December 31, 2008 and 2007

	2008	2007
State Farm General Insurance Company	$ 207,879,271	$ 187,870,527
Allstate Insurance Company	95,483,568	94,950,621
The Fire Insurance Exchange (Farmers)	75,986,563	65,227,628
United Services Automobile Association[1]	70,977,238	65,352,670
California State Automobile Association Inter-Insurance Bureau[2]	20,604,482	18,102,653
Safeco Insurance Company of America[3]	5,269,954	-
California FAIR Plan Association	4,487,943	4,526,266
Interinsurance Exchange of the Automobile Club	34,060,792	32,253,039
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	13,627,710	12,442,613
Foremost Property and Casualty Insurance Company	2,102,617	2,981,583
Mercury Casualty Company	9,974,809	9,869,010
Armed Forces Insurance Exchange	756,391	719,003
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	3,428	70,970
Homesite Insurance Company of California	428,013	332,667
Pacific National Insurance[4]	-	-
Encompass Insurance Company	4,659,128	4,587,004
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	5,808	461
Workmen’s Auto Insurance[7]	-	119
Total	$ 546,307,715	$ 499,286,834

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

[3]Joined the CEA as of December 1, 2008

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

[6]Withdrew from the CEA as of May 1, 2009

[7]Withdrew from the CEA as of Dec 31, 2007

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Unearned Premiums
As of December 31, 2008 and 2007

	2008	2007
State Farm General Insurance Company	$ 113,407,909	$ 95,929,605
Allstate Insurance Company	53,300,471	49,230,336
The Fire Insurance Exchange (Farmers)	43,023,918	34,612,650
United Services Automobile Association[1]	38,603,739	33,688,629
California State Automobile Association Inter-Insurance Bureau[2]	10,960,177	9,649,020
Safeco Insurance Company of America[3]	7,599,386	-
California FAIR Plan Association	2,565,019	2,428,967
Interinsurance Exchange of the Automobile Club	17,744,841	16,411,274
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	7,679,286	6,414,542
Foremost Property and Casualty Insurance Company	942,589	1,582,650
Mercury Casualty Company	4,660,835	4,894,268
Armed Forces Insurance Exchange	396,085	362,449
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	1,250	43,088
Homesite Insurance Company of California	226,640	181,090
Pacific National Insurance[4]	-	-
Encompass Insurance Company	2,313,013	2,193,699
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	3,054	343
Workmen's Auto Insurance[7]	-	-
Total	$ 303,428,212	$ 257,622,610

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

[3]Joined the CEA as of December 1, 2008

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

[6]Withdrew from the CEA as of May 1, 2009

[7]Withdrew from the CEA as of Dec 31, 2007

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Commissions
For the Years Ended December 31, 2008 and 2007

	2008	2007
State Farm General Insurance Company	$ 19,046,101	$ 18,320,511
Allstate Insurance Company	9,148,868	9,568,773
The Fire Insurance Exchange (Farmers)	6,763,921	6,161,992
United Services Automobile Association[1]	6,610,525	6,405,102
California State Automobile Association Inter-Insurance Bureau[2]	1,930,587	1,621,077
Safeco Insurance Company of America[3]	(232,352)	-
California FAIR Plan Association	435,493	475,641
Interinsurance Exchange of the Automobile Club	3,275,416	3,161,509
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	1,237,570	1,176,723
Foremost Property and Casualty Insurance Company	274,867	282,131
Mercury Casualty Company	1,021,463	939,670
Armed Forces Insurance Exchange	72,321	73,697
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	4,523	7,140
Homesite Insurance Company of California	38,299	31,113
Pacific National Insurance[4]	-	-
Encompass Insurance Company	454,176	467,481
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	335	31
Workmen's Auto Insurance[7]	-	857
Total	$ 50,082,113	$ 48,693,448

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

[3]Joined the CEA as of December 1, 2008

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

[6]Withdrew from the CEA as of May 1, 2009

[7]Withdrew from the CEA as of Dec 31, 2007

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Operating Costs
(Net of Deferred Acquisition Costs)
For the Years Ended December 31, 2008 and 2007

	2008	2007
State Farm General Insurance Company	$ 6,812,044	$ 6,574,643
Allstate Insurance Company	3,271,292	3,435,123
The Fire Insurance Exchange (Farmers)	2,349,074	2,208,355
United Services Automobile Association[1]	2,300,895	2,299,115
California State Automobile Association Inter-Insurance Bureau[2]	671,714	581,905
Safeco Insurance Company of America[3]	(91,606)	-
California FAIR Plan Association	155,947	170,826
Interinsurance Exchange of the Automobile Club	1,175,995	1,135,077
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	430,811	422,768
Foremost Property and Casualty Insurance Company	96,828	101,166
Mercury Casualty Company	357,954	337,569
Armed Forces Insurance Exchange	25,183	26,450
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	1,627	2,584
Homesite Insurance Company of California	13,749	11,170
Pacific National Insurance[4]	-	-
Encompass Insurance Company	162,528	167,313
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	800	5
Workmen's Auto Insurance[7]	-	307
Total	$ 17,734,835	$ 17,474,376

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

[3]Joined the CEA as of December 1, 2008

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

[6]Withdrew from the CEA as of May 1, 2009

[7]Withdrew from the CEA as of Dec 31, 2007