STATEMENT OF ACTUARIAL OPINION

Annual Statement of ABC Insurance Company, For the Year Ended December 31 , 2013

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IDENTIFICATION

I , Percy Jackson, am associated with XYZ Actuarial Resources, Inc. I am a member of the American Academy of Actuaries in good standing and meet its qualification standards. I am also a Fellow of the Casualty Actuarial Society. I was appointed by the Board of Directors of ABC Insurance Company, Inc. ("Company") on January 2 , 2013 to render 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 , 2013 and reviewed information provided to me up through and including April 18, 2014. The items in this Scope paragraph on which I am expressing an opinion, reflect the Loss Reserve Disclosure items 8 through 13 in Exhibit B.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data and related information prepared by agents and officers of the Company. I evaluated the data used directly in my analysis for reasonableness and consistency. My evaluation did not reveal any data points materially affecting my analysis that fell outside of the range of reasonable possibilities.

In performing this evaluation, I have assumed that the Company {a) used its best efforts to supply accurate and complete data and (b) did not knowingly provide any inaccurate data. I also reconciled the gross (direct + assumed) and net paid loss and loss adjustment expense amounts and gross and net case reserve amounts as of December 31 , 2013 used in my analysis against Schedule P - Part 1of the Company's current Annual Statement. The differences in our reconciliation were due to the treatment of deductibles and ceded reinsurance. These differences in the reconciliation represent approximately 2% of net case reserves. In other respects, my examination included the use of such actuarial assumptions and methods and such tests of calculations as I considered necessary.

My review was limited to items in Exhibit A and did not include an analysis of any income statement items or other balance sheet items. My opinion on the reserves is based upon the assumption that all reserves are backed by valid assets, which have suitably scheduled maturities and/or adequate liquidity to meet cash flow requirements.

OPINION

This is a Reasonable Opinion.

In my opinion, the amounts carried in the Scope paragraph on account of the items identified:

1. meet the requirements of the insurance laws of Arizona;
2. are consistent with reserves computed in accordance with accepted loss reserving standards and principles;
3. make a reasonable provision in the aggregate for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

In the aggregate, the Company's stated reserves on both a net and direct and assumed basis are within a reasonable range of my independent reserve estimates, hence the stated reserves make a reasonable provision for the liabilities associated with the specified reserves. In my opinion, the reserves described in this certification are consistent with reserves computed in accordance with standards and principles established by the Actuarial Standards Board and are fairly stated. This opinion applies to losses and loss adjustment expenses combined.

The Company writes no policies or contracts related to single or fixed premium policies with coverage periods of thirteen months or greater which are non-cancel able and not subject to premium increase.

# RELEVANT COMMENTS

The intended purpose of this Opinion is to comply with NAIC Annual Statement Instructions. The intended users of the Opinion are:

regulators with which it files its Annual Statement;

the Company; and

Auditors for the Company.

The stated bases of the reserves presented in this Opinion are full nominal amounts consistent with Statutory Accounting Principles (SAP); no adjustments are made to reflect either the time value of money or the risk of adverse deviation. No material assumptions that were used in developing this Opinion were prescribed by law or regulation.

1. Risk of Material Adverse Deviation

There is a risk of material adverse deviation in the Company's loss and loss adjustment expense reserves. Risk factors materially affecting loss and loss adjustment expense reserves for the Company include the relatively short time the Company has been in operation, the potential for future judicial and legislative changes to increase variability in ultimate losses, and the significant levels of reinsurance utilized by the Company and the corresponding significant amount of reinsurance recoverable on ceded reserves

The materiality threshold I used for making the determination of the significant risk of material adverse deviation is 5% of surplus, or approximately $30,000. The reason for choosing a 5% materiality threshold is its consistency with the materiality threshold commonly used in statutory financial examinations.

1. Other Disclosures in Exhibit B

Reserves are established by the Company gross of anticipated salvage and subrogation. The Company does not discount loss and loss adjustment expense reserves. The Company does not participate in any voluntary or involuntary pools. 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 writes only nursing home professional liability.

1. Reinsurance

Based on discussions with Company management and a review of Schedule F of the annual statement, I am not aware of any reinsurance contract that either has been or should have been accounted for as loss portfolio transfer, retroactive reinsurance or financial reinsurance.

Indicated reserves on a net basis reflect anticipated recoverables from several reinsurers as listed in Schedule F, Part 3 of the Company's 201 3 Annual Statement. There are no other recoverables contemplated in this opinion.

My opinion on the loss and loss adjustment expense reserves net of ceded reinsurance assumes that all ceded reinsurance is valid and collectible. The Company has represented to me that it knows of no uncollectible reinsurance cessions. The Company reinsures with Offshore Affiliated Inc.(OAI ) which appears to be both unauthorized and unrated and several Lloyd's syndicates. Management has represented that all OAI collectibles are collateralized at a rate of 80% or more. Therefore ceded loss reserves are all either with companies rated "A" or better by AM Best or over 80% collateralized. No amounts are more than 90 days overdue. Therefore, reinsurance collectability does not appear to be a material issue.

I have reviewed the Part 2 - Property and Casualty Interrogatory #9 regarding the risk transfer elements of *its* reinsurance contracts. Furthermore, I discussed the company's reinsurance program with management. I have not performed an independent evaluation of the risk transfer elements of individual contracts but rely on management's representations that the credit for reinsurance is consistent with SSAP No. 62 - Property and Casualty Reinsurance.

1. IRIS Ratios

The Company's results for the IRIS Tests for One-Year Reserve Development to Surplus and Estimated Current Reserve Deficiency to Surplus do not produce any exceptional values. The Company result for the Two-Year Reserve Development to Surplus test does produce an unusual result of 27.1%. This result is due to adverse development in the 2007 and 2009 report years.

1. Methods and Assumptions

There were no significant changes in the actuarial assumptions and methods from those previously employed. There were multiple minor changes in assumptions regarding the application of reinsurance contracts by policy period and the treatment of deductibles by reinsurance contracts.

# VARIABILITY

In evaluating whether the reserves make a reasonable provision for unpaid losses and loss expenses, it is necessary to project future loss and loss adjustment expense payments. It is certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, my projections make no provision for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the Company's historical data base or which are not yet quantifiable.

# ACTUARIAL REPORT

An actuarial report and any underlying actuarial work papers supporting the findings expressed in this Statement of Actuarial Opinion will be retained for a period of seven years and available for regulatory examination.

This statement of opinion is solely for the use of, and only to be relied upon by, the Company and the various state departments with which it files its Annual Statement.

Date: April 1, 201 4

Signature of Actuary

Percy Jackson, FCAS, MAAA

XYZ Actuarial Resources, Inc. Address

Phone number

Exhibit A: SCOPE

|  |  |
| --- | --- |
| Loss Reserves | Column l Amoun t |
| 1. | Reserve for Unpaid Losses (Liabilities, Surplus and Other Funds | 1. |  |
|  | page, Col. 1 , Line 1) |  | 759,159 |
| 2. | Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page,Col.1 ,Line 3) | 2. | 1 60,571 |
| 3. | Reserve for Unpaid Losses - Direct and Assumed {Schedule P, | 3. |  |
| 4. | Part 1 ,Summary Totals from Cols. 1 3 and 1 5, line 12 • 1000) Reserve for Unpaid Loss Adjustment Expenses - Direct and | 4. | 4, 299,000 |
|  | Assumed (should equal Schedule P, Part 1 ,Summary Totals from |  |  |
|  | Cols. 17, 19 and 21 ,Line 12 • 1000) |  |  |
| 5. | The Page 3 write-in item reserve, "Retroactive Reinsurance | 5. |  |
|  | Reserve Assumed" |  | 0 |
| 6. | Other Loss Reserve items on which the Appointed Actuary is | 6. |  |
|  | expressing an Opinion (list separately) |  | 0 |

Premium Reserves Column 1

Amount

|  |  |  |
| --- | --- | --- |
| 7. | Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts | $ 0 |
| 8. | Reserve for Net Unearned Premiums for Long Duration Contracts | $ 0 |
| 9. | Other Premium Reserve items on which the Appointed Actuary |  |
|  | is expressing an Opinion {list separately) | $ 0 |

**Exhibit B: DISCLOSURES**

Column 1 Column 2

Column 3

Column 4

* + 1. Name of the Appointed Actuary
		2. The Appointed Actuary's Relationship to the Company. Enter E or C based upon the following:

E if an Employee or the Company or Group C if a Consultant

* + 1. The Appointed Actuary has the following designation:

F if a Fellow of the Casualty Actuarial Society (FCAS)

A if an Associate of the Casualty Actuarial Society (ACAS)

M if not a member of the Casualty Actuarial Society, but a Member of the American Academy of Actuaries (MAAA) approved by the Casualty Practice Council, as documented with the attached approval letter.

O for Other

* + 1. Type of Opinion, as identified in the OPINION paragraph. Enter R,I,E, Q, or N based upon the following:

R if Reasonable

I if Inadequate or Deficient Provision E if Excessive or Redundant Provision

Q if Qualified. Use Q when part of the OPINION is Qualified.

N if No Opinion

Jackson w.

c

F

R

s. Materiality Standard expressed in US dollars (Used to Answer Question #6) s

1. Are there significant risks that could result in Material Adverse Deviation?

30,000\_

Yes [ X )

No [ )

N/A [ )

1. Statutory Surplus (liabilities, Col. 1 , Line 35)
2. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (should equal Part 1Summary, Col. 23,

$ 650,000

line 12 • 1000) S o \_

1. Discount included as a reduction in loss reserves and loss expense reserves as reported in Schedule P
	1. Non-tabular Discount [Notes, line 31823, (Amounts 1 , 2, 3, & 4)],

Electronic FilingCols.7,8,9,& 10 $ 0

* 1. Tabular Discount [Notes, ffne 31A23, (Amounts 1& 2)], Electronic

|  |  |  |  |
| --- | --- | --- | --- |
| 10. | Filing Cols. 7 & 8The 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. | $ 0 |  |
| 11. | The net 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. • |  |  |
|  | 11.1 Asbestos, as disclosed in the Notes to Financial Statements (Notes, |  |  |
|  | Line 32A03D, ending net asbestos reserves for current year) |  |  |
|  | Electronic Filing Col. 11 | $ 0 |  |

11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 320030, ending net environmental reserves for current

year) Electronic Filing Col. 11 $ 0

1. The total claims made extended loss and expense reserve (Schedule P Interrogatories).
	1. Amount reported as loss reserves $ 0
	2. Amount reported as unearned premium reserves $ 0
2. Other items on which the Appointed Actuary is providing Relevant Comment

(list separately) $ 0

* The reserves disclosed in item 11above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor's Pollution Liability, Consultant's Environmental Liability, and Pollution and Remediation Legal Liability.