

XYZ INSURANCE COMPANY

GENERAL LIABILITY

LOSS AND ALLOCATED LOSS ADJUSTMENT EXPENSE RESERVES

As of December 31, 2008

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INTRODUCTION

Purpose, Distribution and Use

This report documents the review of General Liability loss and allocated loss adjustment expense reserves for XYZ Insurance Company (XYZ) as of December 31, 2008. This report was prepared for internal use by XYZ management. Other use or further distribution of this report is not authorized without the prior written consent of XYZ's Actuarial group.

Limitations

The projected ultimate liabilities and associated reserves for loss and allocated loss adjustment expense shown in this report are point estimates. As estimates, these values are subject to variability. Many factors affecting the final payment for loss and allocated loss adjustment expense have not taken place and, therefore, cannot be evaluated with certainty. Such factors include tort reform, future inflation, jury awards, etc. The estimate of liabilities is based on historical experience and does not anticipate extraordinary changes to the factors impacting the future cost of claims. The analysis uses methods of estimating reserve requirements that produce reasonable results given current information. There is no guarantee that loss and allocated loss adjustment expense will develop as shown in this report. We have assumed that a range of acceptable estimates exists in which the selected point estimate is one possible value.

EXECUTIVE SUMMARY

Loss and ALAE Reserves

The following table states the estimated gross loss and allocated loss adjustment expense reserve estimates as of December 31, 2008.

General Liability Reserves as of 12/31/08

(Figures in Thousands of Dollars)

Product	Case Reserves	Estimated IBNR Reserves	Total Reserves
Loss	1,880	965	2,845
ALAE	0	777	777
Total	1,880	1,742	3,622

This amount represents the selected point estimate within the range indicated by the actuarial methods utilized. Any amount at or above this level should be adequate to cover XYZ's go-forward loss and ALAE obligations for accident years 2008 and prior.

ANALYSIS

Data and Other Information Used in the Analysis

The analysis uses the following data:

- Paid Loss
- Incurred Loss
- Paid allocated loss adjustment expense (ALAE)
- Reported Claims
- Closed Claims

We obtained the loss, ALAE, and claim count data from XYZ's internal data warehouse.

Actuarial Methods and Assumptions

We separately reviewed the loss and ALAE components. Estimates were derived using data valued as of December 31, 2008. For each business segment, unpaid loss and ALAE was determined using data organized by accident year.

The ultimate loss estimates were derived using the following actuarial methodologies.

- Paid Loss Development
- Incurred Loss Development
- Bornhuetter-Ferguson using Ultimate Premiums and Paid Loss
- Bornhuetter-Ferguson using Ultimate Premiums and Incurred Loss

The methods used for estimating unpaid ALAE are listed below.

- Paid ALAE Development
- Ratio of Incremental Paid ALAE to Paid Loss
- Bornhuetter-Ferguson using Ultimate Loss and Paid ALAE

Analysis Detail

Please see the Technical Appendix for detailed exhibits concerning the methods, assumptions, and selections associated with this analysis.

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Estimated Loss and ALAE Ratios
 As of December 31, 2008
 Gross Layer

Accident Year	Loss Ratio	ALAE Ratio	Loss and ALAE Ratio (1) + (2)
-----	-----	-----	-----
	(1)	(2)	(3)
Prior	45.455 %	8.455 %	53.909 %
2003	47.391	9.835	57.226
2004	45.417	10.028	55.445
2005	49.600	10.999	60.599
2006	42.894	9.613	52.507
2007	46.556	11.170	57.726
2008	48.791	12.019	60.810
Total	46.587 %	10.421 %	57.008 %

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Summary of Loss Reserve Estimates
 As of December 31, 2008
 Gross Layer

Accident Year	Ultimate Loss	Incurred Loss	Paid Loss	Case Loss Reserves (2) - (3)	IBNR Loss Reserves (1) - (2)	Total Outstanding Loss Reserves (4) + (5)
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(1)	(2)	(3)	(4)	(5)	(6)
Prior	\$ 1,000	\$ 1,000	\$ 905	\$ 95	\$ -	\$ 95
2003	1,090	1,090	1,020	70	-	70
2004	1,090	1,090	975	115	-	115
2005	1,240	1,240	1,000	240	-	240
2006	1,276	1,230	900	330	46	376
2007	1,478	1,200	750	450	278	728
2008	1,561	920	340	580	641	1,221
Total	\$ 8,735	\$ 7,770	\$ 5,890	\$ 1,880	\$ 965	\$ 2,845

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Comparison of Ultimate Loss Estimates
 As of December 31, 2008
 Gross Layer

Accident Year	Paid Loss Development	Incurred Loss Development	Bornhuetter-Ferguson Using Ultimate Premiums and Paid Loss	Bornhuetter-Ferguson Using Ultimate Premiums and Incurred Loss	Straight Average	Weighted Average	Ultimate Loss
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Prior	\$ 905	\$ 1,000	\$ 905	\$ 1,000	\$ 953	\$ 953	\$ 1,000
2003	1,049	1,104	1,049	1,104	1,077	1,076	1,090
2004	1,045	1,137	1,051	1,137	1,093	1,091	1,090
2005	1,222	1,340	1,218	1,330	1,278	1,280	1,240
2006	1,276	1,436	1,330	1,439	1,370	1,367	1,276
2007	1,478	1,667	1,532	1,645	1,581	1,582	1,478
2008	1,561	1,700	1,592	1,654	1,627	1,624	1,561
Total	\$ 8,536	\$ 9,384	\$ 8,677	\$ 9,309	\$ 8,979	\$ 8,973	\$ 8,735

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Paid Loss Development
 As of December 31, 2008
 Gross Layer

Accident Year	12-24	24-36	36-48	48-60	60-72	72-84	84-Ult
Prior	2.500	1.400	1.143	1.063	1.035	1.028	
2003	2.318	1.490	1.105	1.155	1.052		
2004	2.174	1.440	1.181	1.147			
2005	2.577	1.269	1.176				
2006	2.097	1.385					
2007	2.344						
Average	2.335	1.397	1.151	1.121	1.043	1.028	
Average Excluding High/Low	2.334	1.408	1.160	1.147			
Volume Weighted Average	2.325	1.389	1.152	1.122	1.044	1.028	
Time Weighted Average	2.310	1.380	1.160	1.136	1.046	1.028	
3 Year Average	2.339	1.364	1.154	1.121	1.043	1.028	
Inverse Power Curve	2.549	1.362	1.155	1.085	1.053	1.036	1.121
Exponential Curve	1.998	1.474	1.225	1.107	1.051	1.024	1.022
Weibull Curve	2.249	1.435	1.197	1.098	1.050	1.026	1.030
Selected	<u>2.330</u>	<u>1.390</u>	<u>1.160</u>	<u>1.140</u>	<u>1.043</u>	<u>1.028</u>	<u>1.000</u>
Cumulative	4.592	1.971	1.418	1.222	1.072	1.028	1.000
Ratio to Ultimate	0.218	0.507	0.705	0.818	0.933	0.973	1.000

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Paid Loss Development
 As of December 31, 2008
 Gross Layer

Tail Factor Analysis

Inverse Power Curve: $y = 1 + e^a * (x+c)^{-b}$
 a = 0.438 b = 2.098 c = 0.000 R squared = 0.961

Age (X)	Actual (Y)	Modified	Exclude	Incremental Fitted Factors	Cumulative Fitted Factors
1.000	2.330			2.549	5.317
2.000	1.390			1.362	2.086
3.000	1.160			1.155	1.532
4.000	1.140			1.085	1.327
5.000	1.043			1.053	1.223
6.000	1.028			1.036	1.162
7.000				1.026	1.121
8.000				1.020	1.093
9.000				1.015	1.072
10.000				1.012	1.055
11.000				1.010	1.042
12.000				1.008	1.032
13.000				1.007	1.023
14.000				1.006	1.016
15.000				1.005	1.010
16.000				1.005	1.005

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Paid Loss Development
 As of December 31, 2008
 Gross Layer

Tail Factor Analysis

Exponential Curve: $y = 1 + e^{(a + bx)}$
 a = 0.742 b = -0.744 c = 0.000 R squared = 0.964

Age (X)	Actual (Y)	Modified	Exclude	Incremental Fitted Factors	Cumulative Fitted Factors
1.000	2.330			1.998	4.393
2.000	1.390			1.474	2.199
3.000	1.160			1.225	1.492
4.000	1.140			1.107	1.218
5.000	1.043			1.051	1.100
6.000	1.028			1.024	1.047
7.000				1.011	1.022
8.000				1.005	1.010
9.000				1.003	1.005
10.000				1.001	1.002
11.000				1.001	1.001
12.000				1.000	1.001
13.000				1.000	1.000
14.000				1.000	1.000
15.000				1.000	1.000
16.000				1.000	1.000

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Paid Loss Development
 As of December 31, 2008
 Gross Layer

Tail Factor Analysis

Weibull Curve: $y = 1 / (1 - e ^ { (-e ^ a (x + c) ^ b) })$
 a = -0.531 b = 1.020 c = 0.000 R squared = 0.984

Age (X)	Actual (Y)	Modified	Exclude	Incremental Fitted Factors	Cumulative Fitted Factors
1.000	2.330			2.249	4.712
2.000	1.390			1.435	2.095
3.000	1.160			1.197	1.460
4.000	1.140			1.098	1.219
5.000	1.043			1.050	1.111
6.000	1.028			1.026	1.057
7.000				1.014	1.030
8.000				1.007	1.016
9.000				1.004	1.008
10.000				1.002	1.004
11.000				1.001	1.002
12.000				1.001	1.001
13.000				1.000	1.001
14.000				1.000	1.000
15.000				1.000	1.000
16.000				1.000	1.000

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Incurred Loss Development
 As of December 31, 2008
 Gross Layer

Accident Year	12-24	24-36	36-48	48-60	60-72	72-84	84-Ult
Prior	1.364	1.200	1.056	1.032	1.020	1.000	
2003	1.197	1.228	1.052	1.029	1.038		
2004	1.134	1.250	1.095	1.048			
2005	1.356	1.152	1.088				
2006	1.382	1.171					
2007	1.333						
Average	1.294	1.200	1.072	1.036	1.029	1.000	
Average Excluding High/Low	1.313	1.200	1.072	1.032			
Volume Weighted Average	1.297	1.196	1.073	1.037	1.030	1.000	
Time Weighted Average	1.309	1.191	1.079	1.039	1.032	1.000	
3 Year Average	1.357	1.191	1.078	1.036	1.029	1.000	
Inverse Power Curve	1.405	1.135	1.071	1.045	1.031	1.023	1.100
Exponential Curve	1.322	1.169	1.088	1.046	1.024	1.013	1.014
Weibull Curve	1.362	1.150	1.079	1.046	1.028	1.018	1.040
Selected	<u>1.330</u>	<u>1.190</u>	<u>1.080</u>	<u>1.036</u>	<u>1.030</u>	<u>1.013</u>	<u>1.000</u>
Cumulative	1.848	1.389	1.167	1.081	1.043	1.013	1.000
Ratio to Ultimate	0.541	0.720	0.857	0.925	0.958	0.987	1.000

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Incurred Loss Development
 As of December 31, 2008
 Gross Layer

Tail Factor Analysis

Inverse Power Curve: $y = 1 + e^a * (x+c)^{-b}$
 a = -0.904 b = 1.589 c = 0.000 R squared = 0.948

Age (X)	Actual (Y)	Modified	Exclude	Incremental Fitted Factors	Cumulative Fitted Factors
1.000	1.330			1.405	2.072
2.000	1.190			1.135	1.474
3.000	1.080			1.071	1.299
4.000	1.036			1.045	1.214
5.000	1.030			1.031	1.162
6.000	1.000		X	1.023	1.126
7.000				1.018	1.100
8.000				1.015	1.081
9.000				1.012	1.065
10.000				1.010	1.052
11.000				1.009	1.041
12.000				1.008	1.032
13.000				1.007	1.024
14.000				1.006	1.017
15.000				1.005	1.010
16.000				1.005	1.005

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Incurred Loss Development
 As of December 31, 2008
 Gross Layer

Tail Factor Analysis

Exponential Curve: $y = 1 + e^{(a + bx)}$
 $a = -0.487$ $b = -0.646$ $c = 0.000$ $R \text{ squared} = 0.969$

Age (X)	Actual (Y)	Modified	Exclude	Incremental Fitted Factors	Cumulative Fitted Factors
1.000	1.330			1.322	1.851
2.000	1.190			1.169	1.400
3.000	1.080			1.088	1.198
4.000	1.036			1.046	1.101
5.000	1.030			1.024	1.052
6.000	1.000		X	1.013	1.027
7.000				1.007	1.014
8.000				1.004	1.007
9.000				1.002	1.004
10.000				1.001	1.002
11.000				1.001	1.001
12.000				1.000	1.001
13.000				1.000	1.000
14.000				1.000	1.000
15.000				1.000	1.000
16.000				1.000	1.000

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Incurred Loss Development
 As of December 31, 2008
 Gross Layer

Tail Factor Analysis

Weibull Curve: $y = 1 / (1 - e ^ { (-e ^ a (x + c) ^ b) })$
 a = 0.282 b = 0.619 c = 0.000 R squared = 0.971

Age (X)	Actual (Y)	Modified	Exclude	Incremental Fitted Factors	Cumulative Fitted Factors
1.000	1.330			1.362	1.926
2.000	1.190			1.150	1.414
3.000	1.080			1.079	1.229
4.000	1.036			1.046	1.139
5.000	1.030			1.028	1.089
6.000	1.000		X	1.018	1.059
7.000				1.012	1.040
8.000				1.008	1.028
9.000				1.006	1.019
10.000				1.004	1.013
11.000				1.003	1.009
12.000				1.002	1.006
13.000				1.002	1.004
14.000				1.001	1.003
15.000				1.001	1.001
16.000				1.001	1.001

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Summary of ALAE and Reserves
 As of December 31, 2008
 Gross Layer

Accident Year	Paid ALAE	Indicated ALAE Reserves	Ultimate ALAE (1) + (2)
-----	-----	-----	-----
	(1)	(2)	(3)
Prior	\$ 186	\$ -	\$ 186
2003	214	12	226
2004	207	34	241
2005	215	60	275
2006	172	114	286
2007	135	220	355
2008	48	337	385
Total	\$ 1,177	\$ 777	\$ 1,954

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Comparison of Ultimate ALAE Estimates
 As of December 31, 2008
 Gross Layer

Accident Year	Paid ALAE Development	Ratio of Incremental Paid ALAE to Paid Loss	Bornhuetter- Ferguson Using Ultimate Loss and Paid ALAE	Straight Average	Ultimate ALAE
	(1)	(2)	(3)	(4)	(5)
Prior	\$ 186	\$ 224	\$ 186	\$ 199	\$ 186
2003	226	242	230	233	226
2004	241	254	250	248	241
2005	275	286	286	282	275
2006	286	290	307	294	286
2007	355	348	379	360	355
2008	385	366	411	387	385
Total	\$ 1,954	\$ 2,010	\$ 2,049	\$ 2,003	\$ 1,954

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Paid ALAE Development
 As of December 31, 2008
 Gross Layer

Accident Year	12-24	24-36	36-48	48-60	60-72	72-84	84-Ult
Prior	3.077	1.575	1.206	1.059	1.093	1.057	
2003	3.500	1.675	1.364	1.102	1.103		
2004	2.576	1.647	1.336	1.107			
2005	3.677	1.491	1.265				
2006	2.581	1.550					
2007	3.000						
Average	3.069	1.588	1.293	1.089	1.098	1.057	
Average Excluding High/Low	3.040	1.591	1.300	1.102			
Volume Weighted Average	3.010	1.578	1.292	1.091	1.099	1.057	
Time Weighted Average	3.020	1.572	1.300	1.097	1.100	1.057	
3 Year Average	3.086	1.563	1.322	1.089	1.098	1.057	
Inverse Power Curve	3.194	1.545	1.241	1.136	1.087	1.060	1.218
Exponential Curve	2.374	1.687	1.343	1.171	1.086	1.043	1.043
Weibull Curve	2.870	1.650	1.300	1.152	1.080	1.043	1.050
Selected	<u>3.050</u>	<u>1.580</u>	<u>1.300</u>	<u>1.100</u>	<u>1.100</u>	<u>1.057</u>	<u>1.000</u>
Cumulative	8.012	2.627	1.663	1.279	1.163	1.057	1.000
Ratio to Ultimate	0.125	0.381	0.601	0.782	0.860	0.946	1.000

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Paid ALAE Development
 As of December 31, 2008
 Gross Layer

Tail Factor Analysis

Inverse Power Curve: $y = 1 + e^a * (x+c)^{-b}$
 a = 0.786 b = 2.009 c = 0.000 R squared = 0.981

Age (X)	Actual (Y)	Modified	Exclude	Incremental Fitted Factors	Cumulative Fitted Factors
1.000	3.050			3.194	9.762
2.000	1.580			1.545	3.057
3.000	1.300			1.241	1.978
4.000	1.100			1.136	1.593
5.000	1.100			1.087	1.403
6.000	1.057			1.060	1.291
7.000				1.044	1.218
8.000				1.034	1.167
9.000				1.027	1.129
10.000				1.022	1.100
11.000				1.018	1.077
12.000				1.015	1.058
13.000				1.013	1.042
14.000				1.011	1.029
15.000				1.010	1.018
16.000				1.008	1.008

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Paid ALAE Development
 As of December 31, 2008
 Gross Layer

Tail Factor Analysis

Exponential Curve: $y = 1 + e^{(a + bx)}$
 a = 1.012 b = -0.694 c = 0.000 R squared = 0.933

Age (X)	Actual (Y)	Modified	Exclude	Incremental Fitted Factors	Cumulative Fitted Factors
1.000	3.050			2.374	7.441
2.000	1.580			1.687	3.134
3.000	1.300			1.343	1.858
4.000	1.100			1.171	1.384
5.000	1.100			1.086	1.181
6.000	1.057			1.043	1.088
7.000				1.021	1.043
8.000				1.011	1.021
9.000				1.005	1.011
10.000				1.003	1.005
11.000				1.001	1.003
12.000				1.001	1.001
13.000				1.000	1.001
14.000				1.000	1.000
15.000				1.000	1.000
16.000				1.000	1.000

XYZ Insurance Company
 General Liability
 (Amount Arrays in Thousands of Dollars)

Paid ALAE Development
 As of December 31, 2008
 Gross Layer

Tail Factor Analysis

Weibull Curve: $y = 1 / (1 - e^{-(-e^{-a}(x+c)^b)})$
 a = -0.848 b = 1.120 c = 0.000 R squared = 0.981

Age (X)	Actual (Y)	Modified	Exclude	Incremental Fitted Factors	Cumulative Fitted Factors
1.000	3.050			2.870	8.400
2.000	1.580			1.650	2.927
3.000	1.300			1.300	1.773
4.000	1.100			1.152	1.364
5.000	1.100			1.080	1.184
6.000	1.057			1.043	1.096
7.000				1.023	1.050
8.000				1.012	1.027
9.000				1.007	1.014
10.000				1.004	1.007
11.000				1.002	1.004
12.000				1.001	1.002
13.000				1.001	1.001
14.000				1.000	1.000
15.000				1.000	1.000
16.000				1.000	1.000