

2011 STATEMENT OF ACTUARIAL OPINION FOR FICTITIOUS INSURANCE COMPANY

STATEMENT OF ACTUARIAL OPINION

Fictitious Insurance Company

IDENTIFICATION

I, William H. Smith, am a Fellow of the Casualty Actuarial Society, member of the American Academy of Actuaries, and am associated with the firm of WS Actuarial Consulting. I meet the qualification standards of the American Academy of Actuaries for Statements of Actuarial Opinion for the Property and Casualty Annual Statement.

I was appointed by the Board of Directors of Fictitious Insurance Company ("the Company") on September 7, 2011, to provide this opinion for purposes of satisfying the requirements of the NAIC *Annual Statement Instructions Property/Casualty*. The intended users of this opinion are Company management, its Board of Directors and state insurance department regulators.

SCOPE

I have reviewed the December 31, 2011, loss and loss adjustment expense reserves recorded under U.S. Statutory Accounting Principles, listed in Exhibit A and included in the 2011 Statutory Annual Statement of the Company as filed with the respective state insurance departments. Those loss and loss adjustment expense reserves are the responsibility of the Company's management; my responsibility is to express an opinion on those loss and loss adjustment expense reserves based on my review.

My review of the Company's reserves included the use of such actuarial assumptions and methods and such tests of the actuarial calculations as I considered necessary in the circumstances and was conducted in accordance with standards and principles established by the Actuarial Standards Board. My review considered information provided to me through January 28, 2012.

The reserves listed in Exhibit A, where applicable, include provisions for disclosure items (disclosures 8 through 13) in Exhibit B.

In my review, I have relied on data and other relevant information, prepared by John J. Hoffman, Vice President and Controller of the Company. I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P, Part 1 of the Company's 2011 Annual Statement.

I have not reviewed the Company's unearned premium reserves, nor have I performed any analysis to determine whether a premium deficiency reserve is needed to supplement the unearned premium reserves reported by the Company.

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I have not reviewed any of the Company's assets, nor have I formed any opinion as to their validity or value; the following opinion is based on the assumption that the Company's December 31, 2011, statutory-basis reserves identified herein are funded by valid assets that have suitably scheduled maturities and/or adequate liquidity to meet cash flow requirements.

OPINION

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

- ▶ Make a reasonable provision for all unpaid losses and loss adjustment expenses, gross and net as to reinsurance ceded, under the terms of the Company's contracts and agreements.
- ▶ Are computed in accordance with accepted standards and principles.
- ▶ Meet the requirements of the insurance laws of Florida.

RELEVANT COMMENTS

Materiality standard

In order to establish my materiality standard, for purposes of addressing the risk of material adverse deviation of the Company's reserves for unpaid losses and loss adjustment expenses, I have considered the following amounts:

| | | |
|----|--|--------------|
| 1. | 10% of the Company's net loss + loss adjustment expense reserves (10% of Exhibit A, Item 1. + Item 2.) at December 31, 2011 | \$5,155,700 |
| 2. | 20% of the Company's surplus at December 31, 2011 | \$6,204,800 |
| 3. | The difference between the Company's surplus at December 31, 2011, and the company action level based on the NAIC's Risk-Based Capital formula | \$19,920,000 |

My materiality standard, for purposes of preparing the analysis in support of this Statement of Actuarial Opinion, was established at \$5,155,700, which is the smallest of the foregoing amounts.

Risk of material adverse deviation

I have identified the major risk factors for this company as: mass tort claims; construction defect claims; so-called "Chinese drywall" claims; cumulative injury losses; claims from large deductible workers' compensation policies; and claims related to catastrophic weather events.

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In my analysis I have considered these risk factors and the implications of uncertainty in estimates of unpaid losses and loss adjustment expenses in determining my range of reasonable estimates. I also observed that the difference between the Company's carried reserves for losses and loss adjustment expenses and the higher end of my range of reasonable unpaid claim estimates is greater than my materiality standard.

In light of the materiality considerations within this analysis, and after considering the potential risks and uncertainties that could bear on the Company's reserve development, I concluded that there are significant risks and uncertainties that could result in material adverse deviation of the Company's carried reserves for unpaid losses and loss adjustment expenses as of December 31, 2011.

These risk factors are described in more detail in the following paragraphs and in the report supporting this opinion.

Mass Torts

The Company has exposure to mass tort claims such as those involving asbestos and environmental impairment liability. The Company's management has indicated that case-basis loss and allocated loss adjustment expense reserves for such claims are established as claims are reported. Additional reserves for such claims are established by the Company's management to include the potential for future development of those claims and the reporting of latent claims. Estimation of ultimate liabilities for those types of claims is unusually difficult due to such outstanding issues as whether coverage exists, definition of an occurrence, determination of ultimate damages, and allocation of such damages to financially responsible parties. The Company's net reserves for these mass tort claims totaling \$3,739,000, which are included in the amounts listed in Exhibit A, are subject to greater inherent uncertainty than are estimates of the remainder of the Company's loss and loss adjustment expense liabilities.

Other losses and/or risk factors subject to greater inherent uncertainty

Additionally, at December 31, 2011, the Company has characterized construction defect claims; so-called "Chinese drywall" claims; cumulative injury losses; claims from large deductible workers' compensation policies; and claims related to catastrophic weather events, including wildfires tornadoes and hurricanes, as types of losses subject to greater inherent uncertainty than are estimates for the remainder of the Company's loss and loss adjustment expense liabilities due to pending legal interpretation, coverage disputes, length of the expected settlement pattern and high excess attachment levels. The absence of other types of losses and risk factors from this paragraph does not imply that additional factors will not be identified in the future as having contributed to significant uncertainty in the Company's estimates of unpaid losses and loss adjustment expenses.

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Anticipated salvage and subrogation

The Company's management has informed me that the reserves listed in Exhibit A provide for anticipated salvage and subrogation.

Discounting

Except for tabular discount for workers' compensation and other liability, the Company's management has informed me that it does not discount its reserves for unpaid losses and loss adjustment expenses.

Pools and associations

The company does not participate in any voluntary and involuntary underwriting pools or associations.

Retroactive or financial reinsurance

I have been informed by the Company's management that it is not aware of any reinsurance contract that either has been or should have been accounted for as retroactive reinsurance or financial reinsurance.

Uncollectible reinsurance

I have been informed by the Company's management that it is not aware of any significant uncollectible reinsurance. In my review, I have requested information from management on uncollectible reinsurance, reviewed the latest available financial ratings of reinsurers by a recognized rating service and reviewed Schedule F for indications of regulatory actions or reinsurance recoverables on paid losses over 90 days past due. The majority of the Company's ceded loss reserves are with reinsurance companies rated A or better by A.M. Best Company. Past uncollectibility levels and current amounts in dispute have been reviewed and found to be immaterial relative to surplus. Therefore, reinsurance collectibility does not appear to be an issue. I express no opinion on the financial condition of the Company's reinsurers.

IRIS Ratios

I have reviewed the Company's calculations of the National Association of Insurance Commissioners' Insurance Regulatory Information System (IRIS) tests that relate to the Company's December 31, 2011, loss and loss adjustment expense reserves (Test 11, One-Year Reserve Development to Surplus; Test 12, Two-Year Reserve Development to Surplus; and Test 13, Estimated Current Reserve Deficiency to Surplus). No exceptional values were noted with respect to the Company's December 31, 2011, loss and loss adjustment expense reserve tests.

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Extended reporting endorsements

According to management, the Company has no exposure to medical professional liability extended reporting endorsements, such as those relating to death, disability or retirement.

Long-duration contracts

Excluding financial guaranty contracts, mortgage guaranty policies and surety contracts, the Company's management has informed me that the Company does not write policies with coverage periods of 13 months or greater that are non-cancelable and not subject to premium increase.

* * *

An actuarial report supporting this actuarial opinion is to be provided to the Company to be retained for a period of seven years at its administrative offices and to be available for regulatory examination.

(Signature of William H. Smith)

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February 24, 2012

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Exhibit A: SCOPE

| <u>Loss and Loss Adjustment Expense Reserves:</u> | <u>Amount</u> |
|---|---------------|
| 1. Reserve for Unpaid Losses (Liabilities, Surplus and Other Funds page, Col 1, Line 1) | \$41,894,000 |
| 2. Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col 1, Line 3) | \$9,663,000 |
| 3. Reserve for Unpaid Losses - Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 13 and 15, Line 12 * 1000) | \$51,275,000 |
| 4. Reserve for Unpaid Loss Adjustment Expenses - Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 17, 19 and 21, Line 12 * 1000) | \$10,424,000 |
| 5. The Page 3 write-in item reserve, "Retroactive Reinsurance Reserve Assumed" | \$0 |
| 6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately) | \$0 |
| <u>Premium Reserves:</u> | |
| 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 |

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Exhibit B: DISCLOSURES

| | | <u>Last</u> | <u>First</u> | <u>Mid</u> |
|----|--|--------------|--------------|--------------------|
| 1. | Name of the Appointed Actuary | Smith | William | H |
| 2. | The Appointed Actuary's Relationship to the Company. Enter E or C based upon the following: E if an Employee of the Company or Group C if a Consultant | | C | |
| 3. | The Appointed Actuary has the following designation (indicated by the letter code):: 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 | | F | |
| 4. | 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 | | R | |
| 5. | Materiality Standard expressed in US dollars (Used to Answer Question #6) | \$5,155,700 | | |
| 6. | Are there significant risks that could result in Material Adverse Deviation? | Yes [X] | No [] | Not Applicable [] |
| 7. | Statutory Surplus (Liabilities, Col 1, Line 37) | \$31,024,000 | | |
| 8. | Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (should equal Part 1 Summary, Col 23, Line 12 * 1000) | \$1,363,000 | | |
| 9. | Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P | | | |
| | 9.1 Nontabular Discount [Notes, Line 32B23, (Amounts 1, 2, 3 & 4)], Electronic Filing Cols 1, 2, 3 & 4 | \$0 | | |
| | 9.2 Tabular Discount [Notes, Line 32A23 (Amounts 1 & 2)], Electronic Filing Col 1 & 2. | \$1,365,000 | | |

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| | | |
|-----|---|-------------|
| 10. | The net reserves for losses and expenses for the Company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines. | \$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 33A03D, ending net asbestos reserves for current year), Electronic Filing Col 6 | \$3,280,000 |
| | 11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 33D03D, ending net environmental reserves for current year), Electronic Filing Col 6 | \$459,000 |
| 12. | The total claims made extended loss and expense reserve (Greater than or equal to Schedule P Interrogatories). | |
| | 12.1 Amount reported as loss reserves | \$0 |
| | 12.2 Amount reported as unearned premium reserves | \$0 |
| 13. | Other items on which the Appointed Actuary is providing Relevant Comment (list separately) | \$0 |

* The reserves disclosed in item 11 above, 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.

2011 ACTUARIAL OPINION SUMMARY FOR FICTITIOUS INSURANCE COMPANY**ACTUARIAL OPINION SUMMARY****Fictitious Insurance Company****December 31, 2011**

This Actuarial Opinion Summary has been prepared in conjunction with my role as Appointed Actuary for Fictitious Insurance Company ("the Company"), and in accordance with the NAIC's Annual Statement Supplemental Filing Instructions. The information provided in this Actuarial Opinion Summary will be included in the actuarial report in support of my Statement of Actuarial Opinion, dated February 24, 2012, on the Company's statutory-basis loss and loss adjustment expense reserves at December 31, 2011. That actuarial report is to be provided to the Company to be retained for a period of seven years at its administrative offices and to be available for regulatory examination.

| | <u>Net Reserves (USD in 000s)</u> | | | <u>Gross Reserves (USD in 000s)</u> | | |
|---|-----------------------------------|--------------|-------------|-------------------------------------|--------------|-------------|
| | <u>Low</u> | <u>Point</u> | <u>High</u> | <u>Low</u> | <u>Point</u> | <u>High</u> |
| A. Actuary's range of reserve estimates | 43,000 | | 57,000 | 52,000 | | 68,000 |
| B. Actuary's point estimate | | 50,000 | | | 60,000 | |
| C. Company carried reserves | | 51,557 | | | 61,699 | |
| D. Difference between Company carried and Actuary's estimate (C. - A. and C. - B., if applicable) | 8,557 | 1,557 | (5,443) | 9,699 | 1,699 | (6,301) |

- E. The Company has not had one-year adverse development in excess of 5% of surplus in at least three of the last five calendar years, as measured by Schedule P, Part 2, Summary, and disclosed in the Five-Year Historical Data, on line 74, of the Company's December 31, 2011 statutory-basis Annual Statement.

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This Actuarial Opinion Summary was prepared solely for the Company for the purpose of filing with regulatory agencies and is not intended for any other purpose. Furthermore, it is my understanding that, consistent with the Annual Statement Supplemental Filing Instructions, the information provided

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in this Actuarial Opinion Summary will be held confidential by those regulatory agencies and will not be made available for public inspection.

(Signature of William H. Smith)

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March 1, 2012