

Property/Casualty
Insurers
U.S., Canada, and
Bermuda
Full Rating Report

Attorneys' Liability Assurance Society (Bermuda) Ltd.

Ratings

Security Class	
Attorneys' Liability Assurance Society (Bermuda) Ltd.	
Attorneys' Liability Assurance Society Inc., A Risk Retention Group	
Insurer Financial Strength	A+

Rating Outlook

Stable

Financial Data

	Date	\$ Mil.
Attorneys' Liability Assurance Society (Bermuda) Ltd.		
Net Income	FY 2009	82
Members' Net Worth	11/30/09	724

Analysts

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Related Research

Applicable Criteria

- [Non-Life Insurance Rating Methodology, March 24, 2010](#)
- [Insurance Rating Methodology, Dec. 29, 2009](#)

Other Research

- [Fitch Affirms ALAS' Ratings: Outlook Stable, March 16, 2010](#)
- [Bermuda Market Update, Jan. 28, 2010](#)
- [U.S. Property/Casualty Insurance Review and Outlook 2009-2010, Dec. 8, 2009](#)
- [Property/Casualty Industry Loss Reserve Adequacy At a Crossroads, Nov. 2, 2009](#)

Rating Rationale

- Fitch Ratings views the strong capital position of Attorneys' Liability Assurance Society (Bermuda) Ltd. and its subsidiaries (collectively referred to as "ALAS", or "the company") as an essential factor supporting its very strong insurer financial strength rating. ALAS' members' net worth increased 41% to \$724 million at fiscal year-end Nov. 30, 2009 as a result of favorable underwriting and investment performance. Net premium written to members' net worth improved to a conservative 0.35 times (x) in 2009.
 - Rating strengths also include ALAS' well-established, successful operations in the lawyers' professional liability (LPL) market, conservative loss reserve levels, and a high-quality, fixed-income portfolio that provides sufficient liquidity to meet policyholder obligations. ALAS enjoys sustainable competitive advantages in loss prevention, claims management, and business retention derived from its relationship with member-owners and its service orientation.
 - Ratings concerns are focused on concentration risks. As a monoline LPL insurer, ALAS is reliant on a single market characterized by low-frequency/high-severity claims and higher-than-average earnings and capital volatility. The company's above-average exposure to equity investments is an additional source of capital volatility.
 - ALAS' policy limit of up to \$75 million per claim is supported by significant reinsurance, highlighting the company's reliance on the continuing availability of affordable reinsurance. High-quality, stable relationships with reinsurers are the foundation of the company's reinsurance program.
 - ALAS' underwriting performance continues to demonstrate discipline in pricing and risk retention. Fitch believes the company continues to appropriately balance its commitment to maintaining financial strength through a strong capital position and providing capacity to its members, with the need to remain price competitive. This balance is derived in part from the company's status as a mutual company.
- ## Key Rating Drivers
- Fitch expects ALAS' disciplined approach to the LPL market and use of reinsurance, as well as sound management of the drivers of its underwriting performance, to continue to support its strong capital position. Prior underwriting period reserves are also expected to continue to be adequate. Fitch notes the company's ability to make retrospective premium calls affords it significant capital protection and flexibility for adversity.
 - Fitch believes ALAS' greatest source of downside risk is through equity investments. However, Fitch notes the reduction in allocation of invested assets to equity and alternative market investments to 24% in 2009 from 37% in 2007.

Favorable underwriting and investment performance restore members' net worth to record high.

Change in Members' Net Worth

(\$ Mil., Fiscal Years Ended Nov. 30)

	2009	2008	2007	2006	2005
Members' Net Worth at the Beginning of Year	513	663	524	426	389
Net Income	82	44	141	75	67
Change in Unrealized Gains and Losses	182	(155)	28	31	(9)
Subpart F Cash Distributions	(47)	(31)	(23)	(6)	(11)
Other	(6)	(8)	(7)	(2)	(10)
Change During Year	211	(150)	139	98	37
Members' Net Worth at the End of Year	724	513	663	524	426

Note: U.S. GAAP. ALAS does not make significant repayment of capital to its members other than distributions relating to Internal Revenue Code Subpart F tax liability and member firm terminations in the ordinary course of business.

Source: ALAS, Ltd. annual reports, Fitch Ratings.

Key Rating Issues

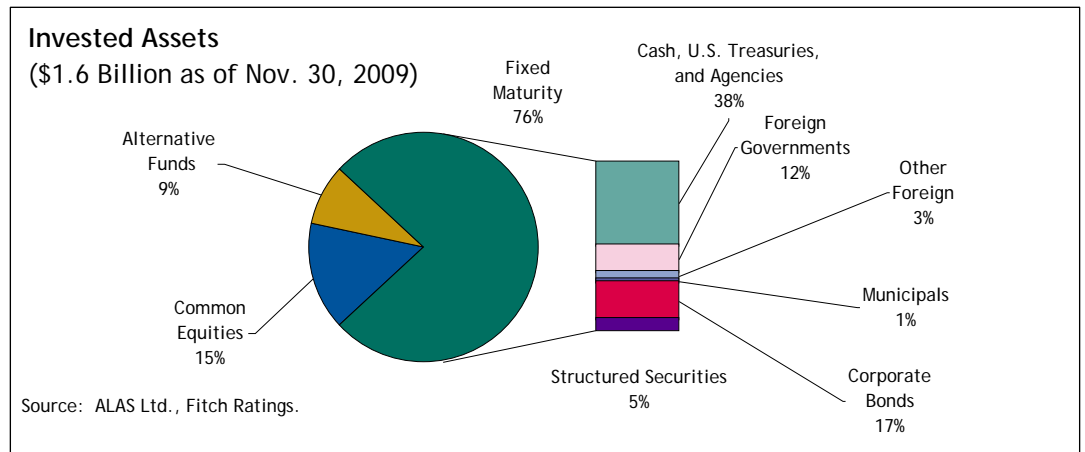
Capital Cushions Potential for Large Losses or Adverse Reserve Development

Increasing 41% to \$724 million at Nov. 30, 2009, Fitch believes ALAS' strong capital position provides ample cushion against high-severity losses and the potential for adverse reserve development. ALAS offers policy limits of up to \$75 million per claim to large law firms that are sometimes involved in highly complex legal issues that may not be resolved for many years. As a result, the company is subject to high-severity, low-frequency losses as well as uncertainty in setting reserves due to the long-tail nature of LPL claims.

Fitch believes that ALAS conservatively and appropriately employs operating leverage, given the inherent risk in its business. Net premium written to capital averaged 0.44x from 2005 to 2009. Net leverage is also conservative and averaged 1.93x over the past five years (see the *Capitalization* section on page 8 for further discussion).

Potential for Capital Volatility Due to Higher-than-Average Equity Exposure

Compared to the property/casualty industry average of 15%, ALAS had a concentration of invested assets in diversified equities and alternative investments totaling 24% at year-end 2009. While Fitch believes that ALAS' higher-than-industry-average allocation to equities and alternatives is reasonable in the long term, it has been a key driver of capital volatility over the last two years (for further detail see the *Investments* section on page 7).



Appropriate Use of Reinsurance Plays a Key Role

Reinsurance plays a key role in ALAS' business strategy, allowing ALAS to offer the largest limits available from a single insurer, as well as providing protection from high severity losses. The reinsurance program is placed with a number of high quality domestic and foreign reinsurers, and Lloyd's syndicates, with long-standing relationships with ALAS.

In the last two years ALAS has increased retention, thus reducing premiums paid to reinsurers, but potentially resulting in additional volatility in underwriting results. Fitch believes the increased retention is reasonable given ALAS' capital position and that the company appropriately monitors and manages the balance between risk retained and ceded (*for further discussion see Reinsurance Protection and Credit Quality on page 9*).

Sustainable Competitive Position and Strategy with Specialized Expertise

ALAS' primary competition is through brokers that structure professional liability programs for law firms and other professionals with large, multi-line insurance carriers such as CNA, Lexington, Interstate, Swiss Re, Chubb, and Lloyd's syndicates. ALAS works in partnership with member firms and has developed a sustainable competitive position as an established, stable, long-term player specializing in LPL insurance. ALAS' share of U.S. law firms with 35 or more attorneys is currently about 22% and represents 32% of the attorneys in that market segment.

Fitch considers ALAS' specialized expertise, including loss prevention and claims management services, as key differentiating factors that have contributed to high market share, growth in lawyer census, solid underwriting performance, and superior membership retention. ALAS also uses unitary premium rates per attorney that are unique to the industry. Premium rates vary solely due to the chosen policy limit and retention level, as ALAS believes that law firms that meet its underwriting standards represent homogeneous risks (*for a detailed discussion, see Company Profile on page 4*).

Peer Analysis

For peer analysis, Fitch compares ALAS to companies with a similar profile — mutual, captive, or private companies serving a focused target market or product. These include AEGIS (excess liability and property insurance for its gas and electric utility members) and FM Global (highly protected property risk).

ALAS and AEGIS are significantly smaller than FM Global, whose underwriting results have been better and less volatile. Relative to AEGIS, ALAS has moderately less absolute capital, but more conservative operating leverage and better operating results over the last five years.

Peer Comparison

(\$ Mil., At Year-End 2009)

Company (IFS Rating)	ALAS (A+)	FM Global (AA)	AEGIS (A-)
GPW	356	4,560	1,114
NPW	254	3,262	767
NPW/GPW (x)	0.71	0.72	0.69
Surplus	724	6,262	860
NPW/Surplus (x)	0.35	0.52	0.89
2009 Combined Ratio	87.7	69.6	111.0
5-Year Avg. CR	87.6	78.0	112.7
Standard Deviation	13.2	11.6	3.7
5-Year Avg. Operating Ratio	69.4	70.9	104.8

GPW – Gross premium written. NPW – Net premium written.

CR – Combined ratio.

Source: U.S. GAAP statements, Fitch Ratings.

Key Historical Events

- 1979 — 35 law firms pooled \$1 million in capital to form Attorneys' Liability Society (Bermuda) Ltd. (ALAS Ltd.), a mutual insurance company owned entirely by its insured member firms.
- 1987 — Attorneys' Liability Assurance Society, Inc., A Risk Retention Group (ALAS, Inc.) incorporated as an industrial captive insurance company under the Illinois Insurance Code.
- 1993 — Investment subsidiary, ALAS Investment Services Limited (AISL), formed.
- 1996 — ALAS, Inc. redomesticated to Vermont as a risk retention group.
- 2003 — Investment subsidiary, ALAS Capital Retention Ltd. (ACRL), formed.

Company Profile

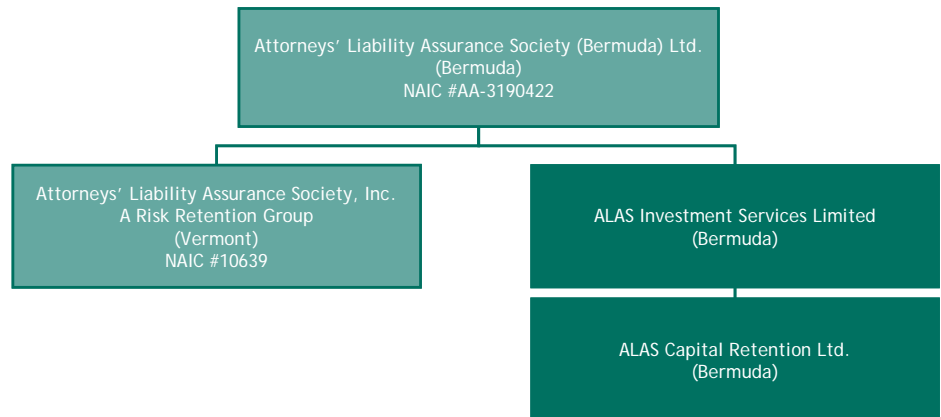
ALAS was founded to provide law firms with a stable source of professional liability coverage and level of service unique to the commercial market. The company currently insures 235 member law firms and approximately 60,000 attorneys, the vast majority of whom practice in 48 states and the District of Columbia, but about 6% practice outside of the U.S. The number of insured lawyers has grown at a compound annual growth rate (CAGR) of 2.2% over 10 years. The largest five and 25 law firms accounted for 13% and 40%, respectively, of ALAS' total gross premium in 2009.

ALAS' premium rates have continually been higher than the commercial market, but as part of its mutual status, it is ALAS' practice to return a portion of premium in the form of a credit. Fitch includes the premium credits in the analysis of underwriting results and recognizes that they also constrain internal capital generation. However, Fitch believes that ALAS continues to appropriately balance its commitment to maintaining a strong capital position and providing capacity to its members while using the premium credit mechanism to remain price competitive. Fitch notes that premium credits are authorized at board and management discretion and are based on a variety of factors including the current fiscal year's results and the company's capital position. Further, only members that renew their coverage are eligible for premium credits.

ALAS' cumulative average per-claim severity was \$374,000. Litigation, including antitrust, is the legal practice area that, at 37%, has generated the largest number of claims for ALAS since inception. However, litigation accounted for only 16% of ALAS' gross incurred losses. The corporate/transactional area of practice, at 42%, accounted for the highest percentage of gross incurred loss and generated 28% of claims. The next highest ranking percentages of gross incurred losses were securities and banking at 10% and 7%, respectively. ALAS has not yet seen any significant loss activity related to the subprime mortgage crisis or the general downturn in the global economy.

ALAS believes its service activities have contributed to a decline in claims frequency and severity in recent years. They also contribute to excellent retention demonstrated by a renewal percentage of 99% or 100% in each of the past six years. The company's claims management, loss prevention, and underwriting departments are staffed by lawyers with significant experience in private practice.

Organizational Chart
(As of Nov. 30, 2009)



Rated by Fitch.
Source: ALAS, Inc., Fitch Ratings.

ALAS' approach to loss prevention and claims management is designed to work in partnership with member firms to reduce exposure and resolve issues at an early stage.

ALAS' approach to loss prevention is to work in partnership with member firms to avoid and/or minimize the cost of legal malpractice claims by identifying and mitigating the underlying causes of such claims. The company's loss prevention staff consists of experienced attorneys dedicated to providing loss prevention services and education to members. Each member firm is required to appoint at least one loss prevention partner who is responsible for quality control and loss prevention within the firm. Loss prevention is also a factor in renewal underwriting — member firms are reviewed semiannually by ALAS' Preferred Risk Committee and those firms that do not continue to meet ALAS' expectations in attitude, claims experience, or commitment to loss prevention are nonrenewed. Since 1992 ALAS has nonrenewed 20 firms, including 11 nonvoluntary nonrenewals since 2000.

ALAS' approach to claims administration also involves a high level of interaction among the company, defense counsel, and insureds to expeditiously resolve matters while contesting claims where appropriate. Member firms are required to promptly notify ALAS when a claim arises, and no claim involving exposure to ALAS will be settled without ALAS' consent. ALAS determines claim coverage and administers all claims. Similar to its underwriting and loss prevention staff, the professional staff of the company's claims department consists exclusively of attorneys with extensive experience in private law practice.

Products

The vast majority (96%) of ALAS' premiums are derived from LPL policies that provide a broad range of coverage. Policies are for a one-year term and are issued exclusively on a claims-made basis, with defense costs included in the limits. Limits offered range from \$10 million per claim with an annual aggregate of \$20 million up to a maximum of \$75 million per claim with an annual aggregate of \$150 million, among the highest in the industry. ALAS also provides a service to assist member firms to place excess coverage in the commercial market through a broker.

ALAS allows firms taking limits of at least \$20 million per claim and \$40 million in aggregate to participate on lower layers through coinsurance arrangements in which the member can retain 10%, 15%, or 20% of the first \$10 million of losses and \$20 million aggregate with corresponding reductions in their premiums for the first \$10 million of coverage.

ALAS also offers employment practices liability insurance (EPLI), management liability insurance (MLI), and a product that combines both coverages (combined MLI/EPLI) to member firms. Currently, these lines constitute 4% of ALAS' overall premium income, and the company has substantial reinsurance support in place to limit its losses from these supplemental coverages.

ALAS' underwriting process for prospective new firms contributes to its strong underwriting performance.

Target Markets/ Distribution

While ALAS does not operate through retail agents or brokers, Fitch believes the company's underwriting process for prospective new firms contributes to its strong underwriting results. ALAS targets large (greater than 35 attorneys), high-quality law firms for membership and has added 41 new law firms since 2001. Prospective new law firms are required to go through an application process providing information about firm management structure, claims experience, coverage history, loss prevention practices, and financial condition. By determining whether an applicant has sufficient management structure and controls in place to effectively monitor the activities of individual attorneys, ALAS is able to effectively underwrite the risks faced by its members.

Operating and Underwriting Ratios

(%, Fiscal Years Ended Nov. 30)

	2009	2008	2007	2006	2005
Return on Assets ^a	5.5	9.1	6.9	3.7	2.7
Return on Members' Net Worth	13.2	7.4	23.8	15.7	16.4
Loss Ratio	59.0	56.6	44.0	68.7	72.5
Expense Ratio	15.0	14.5	17.1	15.3	15.8
Premium Credit Expense Ratio	13.7	—	17.2	14.9	13.8
Combined Ratio	87.7	71.2	78.3	98.9	102.1
Operating Ratio	68.4	54.7	58.4	80.2	85.1

^aAssets have been adjusted to exclude reinsurance recoverables on unpaid losses and unearned reinsurance premium.

Note: U.S. GAAP.

Source: ALAS Ltd., Fitch Ratings.

Financial Analysis

Profitability

The volatility in ALAS' loss ratios over the last few years has declined significantly from the late 1990s and early 2000s.

Because of the inherent low-frequency/high-severity nature of the LPL line, Fitch examines ALAS' profitability over a relatively long time period. While ALAS has reported volatile underwriting results since inception, Fitch believes the company's status as a mutual company enables it to absorb volatile operating results and insulates it from short-term pressures to grow revenues and earnings relative to publicly held peers. Thus, Fitch believes ALAS' results are reasonable given the company's operating strategy and primary focus on providing capacity and service to member firms.

Importantly, the volatility in ALAS' underwriting results over the last five years has declined significantly relative to 10-year and 20-year performance. Claim frequency has been stable over the past five years and continues to be significantly below the late 1990s and early 2000s. Overall claims severity has also stabilized and has declined modestly for large claims with incurred losses of \$10 million or more. As a result, ALAS has reported improvement and lower volatility in underwriting results.

The average combined ratio (including premium credits provided to renewing firms) for the five-year period ending 2009 dropped to 86.8% compared to the average for the 10-year period (ending 2009) of 97.1%. The standard deviation of the combined ratio dropped to 13.2% for the five-year period compared to 25.2% for the ten-year period. While ALAS' expense ratio has been relatively stable, the impact of management's decision to pay premium credits in a given year can have a meaningful impact on the combined ratio.

Operating Performance

(\$ Mil., Fiscal Years Ended Nov. 30)

	2009	2008	2007	2006	2005
Gross Premium Written	356	387	396	370	363
Net Premium Written	254	283	233	236	218
% Change in Net Premium Written	(10.1)	21.3	(1.4)	8.5	(1.8)
Premiums Earned	256	282	232	235	218
Premium Credits	35	—	40	35	30
Net Underwriting Gain (Loss)	32	81	50	3	(4)
Net Investment Income	49	46	46	42	37
Pretax Operating Income	81	128	97	45	33
Realized Gains (Losses)	3	(82)	48	31	36
Income Taxes	2	3	4	2	2
Net Income	82	44	141	75	67

Note: U.S. GAAP.

Source: ALAS Ltd., Fitch Ratings.

While gross premium written has declined since the peak in 2004, net premium written has grown primarily through increased risk retention beginning in 2008.

The volatility of accident year loss ratios (excluding the impact of ALAS' consistently favorable reserve development) also declined meaningfully. While the average accident year loss ratio for the five-year period ending 2009 dropped to 83.9% compared to the average for the ten-year period of 85.3%, the standard deviation of the accident year loss ratio dropped to 3.8% compared to 12.6% for the five-year period and the ten-year period, respectively.

Gross premium written has declined at 3.8% CAGR over the last five years despite an increased number of insured lawyers and higher limits selected, largely due to per-attorney premium rate cuts in 2005 and 2008. However, net premium written increased at 2.7% CAGR over the same period, primarily because ALAS retained more business in 2008 policy year and beyond. For the industry LPL rates peaked in 2005 and 2006 after a series of increases that began in 2001. Excess layer (reinsurance) rates started to become more competitive in 2005 and declined in 2007. ALAS' rates increased over 100% from 2001–2004, before declining in 2005 (all layers), 2006 (layers above \$20 million), 2008 (all layers), and 2009 (all layers).

ALAS' net investment income has held up well with a continued increase in investable assets offsetting relatively flat investment yield. Realized gains in 2009 were modestly positive compared to large net realized losses in 2008, primarily from other-than-temporary impairments of common equities and alternatives.

Investments and Liquidity

ALAS uses seven external investment managers for its fixed maturity portfolio and 14 managers for its equity and alternatives portfolios. External managers are each required to follow ALAS' investment policy guidelines. Manager performance and compliance with guidelines is monitored by the chief investment officer and the investment committee of the board of directors as well as an outside consultant.

Fitch views ALAS as having a high-quality, liquid fixed income portfolio supporting loss reserves. This view is supported by the company's relatively high ratio of liquid assets to liabilities, primarily because 38% of invested assets are in cash, U.S. Treasury and agency securities and 12% are in foreign government bonds at year-end 2009. The company's overall liquidity is augmented by a \$100 million standby line of credit.

The credit quality of ALAS' bond portfolio is very high, with an average credit rating of 'AA+' and over 66% of the fixed income securities rated 'AAA'. Investment grade bonds made up 99.9% of the bond portfolio at Nov. 30, 2009. At 4.3 years, the portfolio duration generates a moderate level of interest rate risk but matches up well with ALAS' liabilities. The fixed maturity portfolio was in a net unrealized gain position of \$62 million at year-end 2009. Of the minimal gross unrealized loss of \$1.7 million, 43% was on structured securities and 20% was on corporate bonds.

A high-quality fixed maturity portfolio supports loss reserves.

Asset Portfolio

(%, Fiscal Years Ended Nov. 30)

	2009	2008	2007	2006	2005
Bonds	72.9	69.7	58.7	56.6	61.0
Common Stock	15.3	14.7	27.9	25.7	23.9
Alternative Funds	8.6	9.0	9.4	8.5	7.4
Cash and Short-Term	3.2	6.6	4.0	9.2	7.7
Total Investments (\$ Mil.)	1,577	1,311	1,444	1,279	1,163
Investment Yield	3.4	3.4	3.4	3.5	3.3

Note: U.S. GAAP.
Source: ALAS Ltd., Fitch Ratings.

Liquidity

(%, Fiscal Years Ended Nov. 30)

	2009	2008	2007	2006	2005
Investment Grade Bonds/Total Bonds	99.9	100.0	100.0	96.7	97.1
Below Investment Grade Bonds/Total Bonds	0.1	0.0	0.0	3.3	2.9
Liquid Assets to Liabilities ^a	163.9	144.5	160.2	148.5	135.3
Cash Flow from Operations (\$ Mil.)	152.4	143.7	125.7	67.7	54.9
Cash Flow from Investing (\$ Mil.)	(132.8)	(74.3)	(152.0)	(26.6)	(20.9)
Cash Flow from Financing (\$ Mil.)	(55.3)	(40.9)	(33.6)	(12.9)	(19.7)
Cash Flow Ratio	203.1	203.2	191.4	147.8	134.4

^aLiabilities have been adjusted to be net of reinsurance recoverables on unpaid losses and unearned reinsurance premium.

Note: U.S. GAAP.

Source: ALAS Ltd., Fitch Ratings.

ALAS has primarily used equities and alternative investments to support members' net worth. The company's common equity portfolio consists of holdings in both domestic and international stocks diversified by cap size, selection criteria, and currency. Alternative fund investments are various forms of arbitrage and are designed to provide stable, consistent returns with low correlation to market movements. Fitch notes that over the last three years ALAS' total return on alternative funds was lower and less volatile than on common equities, but almost 100% correlated. In the past two years ALAS has decreased its allocation to equities and alternative funds from 37% to 24% with most of the decline from a reduction in common equities.

Capitalization

Fitch views ALAS' capital position, based on traditional metrics, as very strong and a key component in the company's rating. Operating leverage continues to be used conservatively, even in years where members' net worth has fluctuated due to underwriting or investment performance. Historically, gross leverage has been somewhat high because of the long duration nature of its products, but declined to 2.22x at year-end 2009, compared to a five-year average of 3.00x.

ALAS is a Class 2 insurer under the Bermuda Insurance Act 1978 (the Act). Under the Act and related regulations, the company is required to maintain certain minimum capital and surplus requirements, which are not available for distributions (see table below).

As a mutual company, ALAS does not have access to the capital markets and must generate capital internally. However, the company's ability to make retrospective

Potential for retrospective premium calls aggregate to \$216 million in capital protection, or 30% of year-end 2009 members' net worth.

Capitalization

(\$ Mil., Fiscal Years Ended Nov. 30)

	2009	2008	2007	2006	2005
Unrealized Gains	166	(8)	148	121	90
Members' Net Worth	724	513	663	524	426
Minimum Solvency Margin – Bermuda Insurance Act	69	65	60	N.A.	N.A.
Net Premium Written/Members' Net Worth (x)	0.35	0.55	0.35	0.45	0.51
Net Leverage (x)	1.56	2.16	1.58	1.96	2.38
Gross Leverage (x)	2.22	3.13	2.50	3.14	4.01
Non-Investment-Grade Bonds/Members' Net Worth (%)	0.2	0.1	0.0	4.5	4.9
Equities/Members' Net Worth (%)	33.3	37.7	60.7	62.8	65.2

N. A. – Not available. Note: U.S. GAAP.

Source: ALAS Ltd., Fitch Ratings.

premium calls affords it significant capital protection and flexibility. As of November 30, potential retrospective premium calls aggregated to \$216 million, or 30% of members' net worth. All of ALAS' LPL policies include an endorsement that permits the company to make retrospective premium calls within four years after the close of each fiscal year during which the policy is in effect. The maximum percentage of annual premium that can be included in these calls is 15%. Such amounts are allocable to the relevant fiscal years on an earned basis. ALAS has never made retrospective premium calls.

Reinsurance Protection and Credit Quality

Reinsurance recoverable exposure is mitigated by strong credit quality and credit protections.

ALAS' reinsurance program provides good protection for earnings and capital in Fitch's view. Under the terms of its reinsurance program for the 2009 and 2010 policy years, ALAS retains 100% of the first \$15 million of losses; 60%, or \$3 million, of the next \$5 million of losses; and 7.5%, or \$4.125 million, of the next \$55 million up to the policy limit of \$75 million. Thus, ALAS limits its losses to \$22.125 million on any one full \$75 million limit loss. This is up from \$20.75 million for the 2008 policy year and \$17.35 million for the 2007 policy year, as the company chose to retain more risk. In addition, ALAS has purchased aggregate stop loss coverage for the layer of \$15 million excess of \$5 million for coverage of 60% of exposure if losses in that layer exceed \$150 million.

While ALAS has higher-than-average capital exposure to reinsurance recoverables, Fitch believes the exposure is mitigated by the strong credit quality of the reinsurers as well as strong credit protections in the contracts. At year-end 2009, reinsurance participants totaled 55, and the 10 largest reinsurers represented 90% of the total recoverable. Five of these were located in the U.S., representing 48% of the total. The other five were located in the U.K., Bermuda, and Europe and represented 14%, 17%, and 11%, respectively, of the total.

ALAS requires that reinsurers provide letters of credit or other security to collateralize some or all of the amounts due. ALAS continually monitors the financial viability of its reinsurers and, when necessary, makes provisions against recoverable amounts where collection is considered in doubt. At Nov. 30, 2009, ALAS was the beneficiary of security trusts of \$129 million and letters of credit in the amount of \$353 million. Of these amounts \$406 million related to amounts due from the ten largest reinsurers.

Reinsurance Recoverables

(\$ Mil., Fiscal Years Ended Nov. 30)

	2009	2008	2007	2006	2005
Reinsurance Receivables	1	3	11	8	33
Reinsurance Recoverables on Reserves	364	379	427	473	536
Unearned Reinsurance Premium	11	12	14	14	15
Total Recoverable	376	394	452	494	584
Total Recoverables/Members Net Worth (%)	51.9	76.8	68.2	94.2	137.1
Retention Ratio (%)	71.4	73.1	58.8	63.9	59.9

Note: U.S. GAAP.

Source: ALAS Ltd., Fitch Ratings.

Prior-year reserve development consistently favorable since 2002.

Reserve Adequacy and Development

Fitch views ALAS' loss reserve position as adequate and within a reasonable range. Based on historical results and discussions with management, Fitch believes the company's reserving philosophy and process are conservative and well managed. Fitch notes that estimating ultimate loss and loss adjustment expense reserves accurately presents unique challenges, given the long-tail nature of ALAS' products and the uncertainty often surrounding the legal issues associated with LPL claims. ALAS' reinsurance structure insulates it from much of the volatility that is inherent in this line of business. In the current year — and substantially all prior years with open claims — a sizable portion of losses in excess of \$15 million are ceded to its reinsurers. In the last decade ALAS experienced three years with no claims greater than \$20 million; five years with one claim greater than \$20 million; and in 2001, 2002, and 2003 experienced two claims greater than \$20 million.

ALAS' ultimate loss reserves are developed quarterly by in-house actuarial staff and reviewed annually by an independent outside actuarial firm, Milliman USA. The company's reserves consist of two components: case reserves and incurred-but-not-evaluated (IBNE) reserves. Case reserves are developed on a claim-by-claim basis, reflecting a detailed evaluation of the expected ultimate loss. IBNE reserves are estimated based on actuarially projected ultimate losses for the underwriting period less the case reserves and the underwriting period's paid losses. ALAS does not discount its reserves.

Although LPL insurance policies are written on a claims-made basis, the period of time between claims being reported and ultimately resolved could be many years. Thus as additional facts and trends emerge, estimates for case and IBNE reserves may need adjustment. ALAS' prior-year reserve development has fluctuated over time but has been consistently favorable since 2002. Even in 2001 when prior year reserve development was adverse, it was relatively small compared to members' net worth.

Reserves

(\$ Mil., Fiscal Years Ended Nov. 30)

	2009	2008	2007	2006	2005
Loss and LAE Reserve (Net of Reinsurance Recoverables)	720	676	622	615	586
Reserve Development	(73)	(67)	(103)	(32)	(18)
Reserve Development/Premiums Earned (%)	(28.5)	(23.9)	(44.4)	(13.5)	(8.4)
Reserve Development/Members' Net Worth (%)	(14.2)	(10.2)	(19.7)	(7.4)	(4.7)

LAE – Loss adjustment expense. Note: U.S. GAAP.
Source: ALAS Ltd., Fitch Ratings.

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