# Sample: AMB Credit Reports – Insurance Professional

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## Best's Rating and Report Updates for SAMPLE INSURANCE COMPANY

**Best's Rating of A++ r (Superior)**
**Financial Size Category of XV ($2 Billion or greater)**

**Rating Category (Superior):** This rating is assigned to companies that have, in our opinion, a superior ability to meet their ongoing obligations to policyholders. A.M. Best assigns each letter rated (A++ through D) insurance company a **Financial Size Category (FSC)**, which is designed to provide a convenient indicator of the size of a company based on reported policyholders' surplus and conditional or reserve funds.

The objective of **Best's rating system** is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Our opinions are derived from the evaluation of a company's balance sheet strength, operating performance and business profile as compared to Best's quantitative and qualitative standards. View our **Best's Rating System and Procedures** for more information.

While Best's Ratings reflect our **opinion** of a company's financial strength and ability to meet its ongoing obligations to policyholders, they are **not a warranty**, nor are they a recommendation of a specific policy form, contract, rate or claim practice. View our **entire notice** for complete details.

**Note:** The above information reflects the most recent Best's Rating for this company, which may have been released subsequent to the creation of the following AMB Credit Report - Insurance Professional (Unabridged) (formerly known as Best's Company Report).

**AMB Credit Report - Insurance Professional** provides detailed business overview, extensive financial data and analytical commentary, product and geographic information, company history, as well as the rationale supporting the financial strength rating assigned by A.M. Best. These reports are updated on a regular basis based on input and analysis performed throughout the year.

**Report Revision Date - 06/11/2009 ***

The **Report Revision Date *** represents the last significant material change made to this report. Other non-material changes may have been made to this report subsequent to this date, but are not reflected in the report revision date. The AMB Credit Report - Insurance Professional below was created based on the following dates.

| Rating and Commentary [1] | Financial [2] | General Information [3] |
|---|---|---|
| Best's Rati... : 05/22/2009 | Time Period: A... 08 | Corpor... ure: N/A |
| Rating ... 05/22/2... | ...st Updat... | State ... 9/2004 |

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| Rating and Commentary [1] | Financial [2] | General Information [3] |
|---|---|---|
| Best's Rating: 05/22/2009 | Time Period: Annual - 2008 | Corporate Structure: N/A |
| Rating Rationale: 05/22/2009 | Last Updated: 04/09/2009 | States Licensed: 09/09/2004 |
| Report Commentary : 06/11/2009 | Status: Quality Cross Checked | Officers and Directors: 03/12/2009 |

***Note:** The **Rating and Commentary** [1] date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report. The **Financial** [2] date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process. The **General Information** [3] date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

## AMB Credit Report - Insurance Professional
(formerly known as Best's Company Report)
## for
## SAMPLE INSURANCE COMPANY

### Ultimate Parent: Sample, Inc

**One Main Street, Washington, District of Columbia, United States 20076-0001**
**Web: http://www.Sample.com/**

**Tel:** 800-555-1234 **Fax:** 301-555-1230
**AMB#:** 00000 **NAIC#:** 00000
**Ultimate Parent#:** 00001 **FEIN#:** 00-0000000

Report Revision Date: 06/11/2009

# BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength and relationship with an affiliated reinsurer, which reinsures virtually all of the company's business, the company is assigned the Best's Financial Strength Rating of its affiliated reinsurer, Government Employees Insurance Company, which is A++ (Superior). The company is assigned the Financial Size Category of Class XV, which is the Financial Size Category of its affiliated reinsurer.

# RATING RATIONALE

The following text is derived from the report of Government Employees Group.

**Rating Rationale:** The ratings and outlook reflect the group's superior financial strength, consistently strong operating performance, brand name recognition and market position as one of the top five personal automobile writers in the United States. These strengths are partially offset by high investment leverage, significant stockholder dividend payments in recent years to its parent company, as well as exposure to potential regulatory issues in several of its larger states.

The group's strong operating results reflect a considerable underwriting expense advantage, which is driven by its direct distribution business model and its favorable loss experience over the previous five-year period. The group's pre-tax operating returns also have benefited from a solid stream of investment income over the previous five-year period. The group has generated substantial capital over the period, which has supported steady growth in net premiums written and enabled it to pay significant dividends to its parent. Furthermore, the group maintains a strategic advantage due to its leadership position in the government and military employee market, as well as an excellent reputation for providing quality service. The group also benefits from a strategic alliance with an unaffiliated insurer, as well as its ownership of an independent agency, which provides it with the ability to supplement its automobile products with homeowner coverage without assuming the corresponding catastrophe risk. The rating also recognizes the considerable financial resources available from its parent company, Sample Corporation, the financial strength of its intermediate parent, Sample Company, as well as its ultimate parent, Sample, Inc., whose financial profile includes approximately $109 billion of stockholders' equity at year-end 2008, minimal debt and a long history of strong profitability.

The group's negative rating factors include high investment leverage, derived from its significant allocation to equities. This was evident in 2008, when the group reported approximately $1.2 billion in unrealized capital losses and $647 million in realized capital losses due primarily to unfavorable equity market conditions. These capital losses resulted in approximately a $1.0 billion decline in statutory surplus in 2008 and a substantial decline in risk-adjusted capitalization. In addition, significant stockholder dividend payments to its parent over the previous five-year period have resulted in a significant decline in risk-adjusted capitalization. In 2006, these dividend payments totaled $2.7 billion. However, the group continues to maintain superior risk-adjusted capitalization that supports its ratings and has historically been successful in managing its investment portfolio through market volatility. In addition, the group maintains a modest geographic concentration that exposes it to legislative changes and judicial decisions, as its top five states account for approximately one-half of its direct premiums written. However, this risk is largely mitigated by the group's geographic spread throughout the rest of the United States and management's proven ability to quickly adapt to changing market conditions.

The rating applies to Sample Insurance Company and its three affiliated companies and is based on the consolidation of these companies.

**Best's Financial Strength Rating: A++r** **Outlook: Stable**

# FIVE YEAR RATING HISTORY

| Date | Best's FSR |
|---|---|
| 05/22/09 | A++r |
| 03/17/08 | A++r |
| 03/22/07 | A++r |
| 03/09/06 | A++r |
| 05/27/05 | A++r |
| 06/11/04 | A++r |

# KEY FINANCIAL INDICATORS

| | Statutory Data ($000) | | |
|---|---|---|---|
| Period Ending | Direct Premiums Written | Net Premiums Written | Pretax Operating Income |
| 2004 | 3,907,524 | … | 4,814 |
| 2005 | 4,164,259 | … | 6,073 |
| 2006 | 4,555,646 | … | 7,171 |
| 2007 | 4,810,586 | … | 7,748 |
| 2008 | 5,035,415 | … | 5,556 |

| | Statutory Data ($000) | | |
|---|---|---|---|
| Period Ending | Net Income | Total Admitted Assets | Policy-holders' Surplus |
| 2004 | 4,232 | 125,939 | 56,095 |
| 2005 | 4,884 | 138,080 | 65,290 |
| 2006 | 5,951 | 151,062 | 70,699 |
| 2007 | 5,805 | 153,862 | 76,429 |
| 2008 | 4,418 | 163,780 | 88,447 |

| Profitability | | Leverage | Liquidity | |
|---|---|---|---|---|
| Inv. | Pretax | | Overall | Oper. |

| Period Ending | Comb. Ratio | Yield (%) | ROR (%) | NA Inv Lev | NPW to PHS | Net Lev | Liq (%) | Cash-flow (%) |
|---|---|---|---|---|---|---|---|---|
| 2004 | … | 4.1 | … | … | … | 1.2 | 180.3 | -99.9 |
| 2005 | … | 4.8 | … | … | … | 1.1 | 189.7 | 755.8 |
| 2006 | … | 5.1 | … | … | … | 1.1 | 188.0 | 999.9 |
| 2007 | … | 5.3 | … | … | … | 1.0 | 198.7 | 713.8 |
| 2008 | … | 3.6 | … | 16.2 | … | 0.9 | 217.4 | 233.0 |
| 5-Yr Avg | … | 4.6 | … | … | … | … | … | … |

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Private Passenger Standard Automobile Composite.

# BUSINESS REVIEW

The following text is derived from the report of Government Employees Group.

The Government Employees Group is a leading provider of personal automobile insurance written on behalf of government employees and military personnel. In addition, the group is a national personal automobile insurance carrier, with modest geographic concentration along the Eastern Seaboard of the United States. Its business is marketed and distributed primarily by direct response methods in which customers apply for coverage directly to the company over the phone, through the mail or via the internet. Most business is processed directly from its regional offices in Macon, Georgia; Fredericksburg, Virginia; Virginia Beach, Virginia; Woodbury, New York; Dallas, Texas; San Diego, California; and Lakeland, Florida. Branch offices are maintained in Honolulu, Hawaii; Coralville, Iowa; Tucson, Arizona; and Buffalo, New York. The group also utilizes some general field representatives (commissioned agents).

The property / casualty insurance group writes business in four companies. Sample Insurance Company (Sample), the lead company, which generates 30% of the group's property / casualty direct premiums written, writes preferred personal lines coverages for government employees and military personnel. Its fully reinsured subsidiary, Sample Insurance Company, which generates 40% of the group's direct premiums, writes preferred automobile insurance for insureds who are not government employees or military personnel. Its companion carrier, Sample Indemnity Company, which generates 26% of the group's direct premiums, writes standard automobile and motorcycle insurance. Sample Indemnity's reinsured subsidiary, Sample Casualty Company, which generates 4% of the group's direct premiums, writes non-standard automobile insurance coverages.

Government Employees Group's policyholders' are offered homeowner insurance by Travelers through a Maryland independent insurance agency, Insurance Counselors, Inc., which is owned by Sample Company. The independent agent also has the capability to offer homeowner products from a number of other carriers. This allows Government Employees Group to focus on growing its core personal automobile insurance business while at the same time offering its customers a homeowner product.

The group re-entered the state of New Jersey in August 2004 and began writing private passenger auto business. Changes by the New Jersey Legislature and the Department of Insurance helped to improve the competitive environment and make this return possible. New Jersey currently ranks as the group's third largest state in terms of direct premiums written.

**Direct Premium Writings By Product Lines:** Direct Premiums written at the last year end totaled ($000) $5,035,415, and were distributed as follows: Priv Pass Auto Liab, $3,049,254; Auto Physical, $1,986,158; All Other, $3.

**Geographical breakdown of direct premium writings ($000):** New York, $1,207,692 (24.0%); Florida, $889,944 (17.7%); California, $353,424 (7.0%); Maryland, $310,401 (6.2%); Virginia, $236,742 (4.7%); 40 other jurisdictions, $2,037,212 (40.5%).

# FINANCIAL PERFORMANCE

The following text is derived from the report of Government Employees Group.

**Overall Earnings:** The group has produced strong operating earnings as evidenced by its five-year pre-tax return on revenue (ROR), which compares favorably to the private passenger automobile industry composite. The five-year pre-tax ROR has been driven by solid underwriting earnings and generally increasing investment income over the period. The group's solid underwriting earnings have been attributable to rate adequacy and favorable loss frequency trends for most coverages. The group's net investment income had been on an increasing trend for most of the previous five-year period due to higher investment yields and steady invested asset growth. However, the group's five-year total return on equity (ROE) lags industry composite norms, driven by approximately $1.2 billion in unrealized capital losses and $647 million in realized capital losses in 2008 due primarily to unfavorable equity market conditions. These capital losses resulted a substantial decline in net income and a significantly negative total ROE for 2008.

## PROFITABILITY ANALYSIS

| | Company | | | | Industry Composite | | | |
|---|---|---|---|---|---|---|---|---|
| Period Ending | Pretax ROR (%) | Return on PHS(%) | Comb. Ratio | Oper. Ratio | Pretax ROR (%) | Return on PHS(%) | Comb. Ratio | Oper. Ratio |
| 2004 | … | 7.4 | … | … | 13.8 | 16.4 | 93.3 | 86.7 |
| 2005 | … | 8.0 | … | … | 9.4 | 11.1 | 98.5 | 91.1 |
| 2006 | … | 8.8 | … | … | 13.7 | 17.7 | 94.4 | 87.1 |
| 2007 | … | 7.9 | … | … | 11.4 | 12.0 | 97.2 | 89.5 |
| 2008 | … | 4.9 | … | … | 6.3 | -12.7 | 101.5 | 94.4 |
| 5-Yr Avg | … | 7.3 | … | … | 10.9 | 8.5 | 97.0 | 89.8 |

**Underwriting Income:** The group has produced favorable underwriting results as evidenced by its five-year average combined ratio, which is lower than the private passenger automobile industry composite. Underwriting results are driven by a below average expense structure, partially offset by a slightly above average pure loss ratio, attributable to its personal automobile liability loss experience. The group's favorable underwriting expense ratio is derived from its cost efficient direct marketing approach, advanced use of technology and economies of scale, which are tempered somewhat by its extensive advertising budget. Underwriting results were on an improving trend earlier in the previous five-year period, which was driven by a declining pure loss ratio that was partially offset by an increasing underwriting expense ratio. In recent years, the group's combined ratio has trended modestly upwards due primarily to a slightly higher loss and loss adjustment expense (LAE) ratio.

The group's improved pure loss experience earlier in the period was driven by rate adequacy and decreasing claim frequencies in most coverages. Claim severities continued to increase moderately for many coverages with automobile physical damage coverages increasing slightly faster than previous years. While there has been no formal change to the group's underwriting criteria, risks are reviewed more thoroughly with fewer exceptions granted from its current guidelines. In addition, staff training has been increased to insure overall compliance with the guidelines and improved allocation to the appropriate rating tier based on the characteristics of the risk. The most recent increase in loss and LAE ratio was reflective private passenger automobile rate decreases in a number of states due to increased price competition in these markets. The increase in the underwriting expense ratio was reflective of stepped up advertising and greater expenses related to benefits.

**Investment Income:** The group maintains a high quality and well diversified investment portfolio that consists primarily of common and preferred stocks, long-term bonds, short-term investments and cash. The overall bond portfolio is primarily allocated to corporate, tax-exempt municipal and U.S. Treasury securities. The group significantly increased its allocation to long-term bonds and preferred stocks in 2008, while decreasing its holdings in cash and short-term investments.

The group's net investment income had been on an increasing trend for most of the previous five-year period, driven by higher investment yields and invested asset growth. The increase in investment yield was reflective of higher market interest rates, while the growth in invested assets was attributable to the group's strong operating cash flows from profitable operations. However, net investment income declined moderately in 2008 due to a decrease in invested assets and slightly lower investment yield. The group's five-year net investment yield has modestly lagged the private passenger automobile industry composite due in large part to its significant allocation of invested assets to equities, short-term investments and cash. The group's five-year total return on invested assets has significantly lagged industry composite norms due primarily to unrealized capital losses on its equity portfolio and to a lesser extent on its bond portfolio that primarily occurred in 2008. The group reported approximately $1.2 billion in unrealized capital losses and approximately $647 million in realized capital losses in 2008, driven by unfavorable market conditions, which resulted in a significantly negative total return on invested assets for the year.

## INVESTMENT INCOME ANALYSIS ($000)

| | Company | | |
|---|---|---|---|
| Year | Net Inv Income | Realized Capital Gains | Unrealized Capital Gains |
| 2004 | 4,814 | … | … |
| 2005 | 6,073 | -1 | … |
| 2006 | 7,171 | 444 | … |
| 2007 | 7,748 | 4 | … |
| 2008 | 5,556 | 155 | -414 |

| | Company | | | Industry Composite | |
|---|---|---|---|---|---|
| Year | Inv Inc Growth (%) | Inv Yield (%) | Total Return (%) | Inv Inc Growth (%) | Inv Yield (%) |
| 2004 | -2.3 | 4.1 | 4.1 | 10.2 | 3.6 |
| 2005 | 26.1 | 4.8 | 4.8 | 14.1 | 3.8 |

| | | | | | |
|---|---|---|---|---|---|
| 2006 | 18.1 | 5.1 | 5.5 | 1.4 | 3.6 |
| 2007 | 8.0 | 5.3 | 5.3 | 5.0 | 3.6 |
| 2008 | -28.3 | 3.6 | 3.4 | -6.3 | 3.5 |
| 5-Yr Avg | 2.0 | 4.6 | 4.6 | 4.2 | 3.6 |

## INVESTMENT PORTFOLIO ANALYSIS

| Asset Class | 2008 Inv Assets ($000) | % of Invested Assets 2008 | 2007 | Annual % Chg |
|---|---|---|---|---|
| Long-Term bonds | 69,077 | 42.8 | 36.3 | 24.6 |
| Other Inv Assets | 92,240 | 57.2 | 63.7 | -5.4 |
| Total | 161,317 | 100.0 | 100.0 | 5.5 |

## 2008 BOND PORTFOLIO ANALYSIS

| Asset Class | % of Total Bonds | Mkt Val to Stmt Val(%) | Avg. Maturity (Yrs) | Class 1 - 2 (%) | Class 3 - 6 (%) | Struc. Secur. (%) | Struc. Secur. (% of PHS) |
|---|---|---|---|---|---|---|---|
| Governments | 48.4 | 2.6 | 0.5 | 100.0 | … | … | … |
| Other | 34.6 | 3.7 | 2.9 | 100.0 | … | … | … |
| Corporates | 17.1 | 1.5 | 5.1 | 41.1 | 58.9 | 58.9 | 16.2 |
| Total all bonds | 100.0 | 3.1 | 2.1 | 89.9 | 10.1 | 10.1 | 16.2 |

# CAPITALIZATION

The following text is derived from the report of Government Employees Group.

**Capital Generation:** The group has generated modest surplus growth over the previous five-year period, reflective of strong operating earnings that were mostly offset by substantial stockholder dividend payments to its parent and capital losses on its equity portfolio. Total stockholder dividend payments for the previous five-year period were approximately $3.6 billion, which primarily resulted from an extraordinary dividend payment of $2.7 billion in 2006. The group's surplus declined approximately $1.0 billion in 2008, driven by $1.2 billion in unrealized capital losses due primarily to unfavorable equity market conditions. The group's surplus declined approximately $870 million in 2006, as an extraordinary stockholder dividend payment more than offset total return for the year. The group generated double-digit surplus growth in 2005 and 2004, which was driven by strong operating earnings and capital gains.

## CAPITAL GENERATION ANALYSIS ($000)

| | Source of Surplus Growth | | |
|---|---|---|---|
| Year | Pretax Operating Income | Total Inv. Gains | Net Contrib. Capital |

| | | | |
|---|---|---|---|
| 2004 | 4,814 | … | -5,700 |
| 2005 | 6,073 | -1 | 5,000 |
| 2006 | 7,171 | 444 | … |
| 2007 | 7,748 | 4 | … |
| 2008 | 5,556 | -260 | 8,000 |
| | | | |
| 5-Yr Total | 31,361 | 188 | 7,300 |

| | Source of Surplus Growth | | |
|---|---|---|---|
| Year | Other, Net of Tax | Change in PHS | PHS Growth (%) |
| 2004 | -661 | -1,547 | -2.7 |
| 2005 | -1,877 | 9,195 | 16.4 |
| 2006 | -2,205 | 5,409 | 8.3 |
| 2007 | -2,023 | 5,729 | 8.1 |
| 2008 | -1,277 | 12,019 | 15.7 |
| | | | |
| 5-Yr Total | -8,043 | 30,805 | … |

**Overall Capitalization:** Government Employees Group maintains superior capitalization as measured by Best's Capital Adequacy Ratio (BCAR), which supports its rating. The group's capital position reflects its moderate underwriting leverage, consistently favorable loss reserve development, nominal dependence on reinsurance and modest catastrophe exposure, which is partially offset by high common stock leverage. The group's risk-adjusted capitalization has declined in recent years from significant stockholder dividend payments to its parent and more recently from unrealized capital losses due to unfavorable equity market conditions, although risk-adjusted capitalization continues to support the rating. The group's capitalization is considerably strengthened by its ultimate parent, Berkshire Hathaway Inc., with shareholder equity of approximately $109 billion and minimal debt at year-end 2008.

## QUALITY OF SURPLUS ($000)

| | | % of PHS | | | Dividend Requirements | | |
|---|---|---|---|---|---|---|---|
| Year | Year-End PHS | Cap Stk/ Contrib. Cap. | Other | Un-assigned Surplus | Stock-holder Divs | Div to POI (%) | Div to Net Inc. (%) |
| 2004 | 56,095 | 81.2 | … | 18.8 | -5,700 | 118.4 | 134.7 |
| 2005 | 65,290 | 77.5 | … | 22.5 | … | … | … |
| 2006 | 70,699 | 71.5 | … | 28.5 | … | … | … |
| 2007 | 76,429 | 66.2 | … | 33.8 | … | … | … |
| 2008 | 88,447 | 66.2 | … | 33.8 | … | … | … |

**Underwriting Leverage:** The group maintains underwriting leverage that is higher than the private passenger automobile industry composite. Net underwriting leverage is derived from above average net premiums written leverage and net liabilities leverage. Gross underwriting leverage is only slightly higher than net underwriting leverage due to nominal ceded reinsurance leverage, as the group consistently retains nearly 100% of its direct premium writings.

The group's underwriting leverage has trended upward in recent years due to the decline in surplus in

2006 from an extraordinary stockholder dividend payment, the decline in surplus in 2008 from realized and unrealized realized capital losses on its equity portfolio and continued growth in net premiums written and associated liabilities. As a result, the group's underwriting leverage is elevated relative to its historical position. The growth in net premiums written over the previous five-year period was driven by policy growth derived from the group's intensive advertising campaign and direct sales approach through the use of call centers, as well as the internet. A significant portion of the group's premium growth over the period can be attributed to its expansion in New Jersey, which has become its third largest state. However, the growth in net premiums written has gradually slowed during the period due to increasingly competitive pricing in the private passenger automobile market.

## LEVERAGE ANALYSIS

| | Company | | | | Industry Composite | | | |
|---|---|---|---|---|---|---|---|---|
| Year | NPW to PHS | Reserves to PHS | Net Lev | Gross Lev | NPW to PHS | Reserves to PHS | Net Lev | Gross Lev |
| 2004 | … | … | 1.2 | 1.9 | 1.0 | 0.6 | 2.2 | 2.3 |
| 2005 | … | … | 1.1 | 1.7 | 0.9 | 0.5 | 2.0 | 2.2 |
| 2006 | … | … | 1.1 | 1.6 | 0.9 | 0.5 | 1.9 | 2.0 |
| 2007 | … | … | 1.0 | 1.5 | 0.8 | 0.5 | 1.8 | 1.9 |
| 2008 | … | … | 0.9 | 1.3 | 0.9 | 0.6 | 2.0 | 2.1 |

Current BCAR: 215.8

## PREMIUM COMPOSITION & GROWTH ANALYSIS

| Period | DPW | | GPW | |
|---|---|---|---|---|
| Ending | ($000) | (% Chg) | ($000) | (% Chg) |
| 2004 | 3,907,524 | 12.1 | 3,907,383 | 12.1 |
| 2005 | 4,164,259 | 6.6 | 4,164,238 | 6.6 |
| 2006 | 4,555,646 | 9.4 | 4,555,606 | 9.4 |
| 2007 | 4,810,586 | 5.6 | 4,810,590 | 5.6 |
| 2008 | 5,035,415 | 4.7 | 5,035,430 | 4.7 |
| | | | | |
| 5-Yr CAGR | … | 7.6 | … | 7.6 |
| 5-Yr Change | … | 44.4 | … | 44.4 |

**Reserve Quality:** The group maintains a conservative loss reserve position with consistently favorable development reported for all calendar and accident years. Reserve development patterns have been favorable for all major lines of business. Reserves are primarily comprised of the private passenger automobile liability line of business, which account for approximately 90% of total reserves. The group maintains modest A&E exposure stemming from a limited number of excess commercial umbrella policies, generally as a participant in high layers of liability during a short period (1981 through early 1984). The group has established reserves for these commercial umbrella A&E claims, reporting $25.8 million of net reserves, including IBNR reserves, at December 31, 2008.

## CEDED REINSURANCE ANALYSIS ($000)

| Company | | | | Industry Composite | | |
|---|---|---|---|---|---|---|
| Ceded | Business | Rein Rec | Ceded | Business | Rein Rec | Ceded |

| Year | Reins Total | Retention (%) | to PHS (%) | Reins to PHS (%) | Retention (%) | to PHS (%) | Reins to PHS(%) |
|---|---|---|---|---|---|---|---|
| 2004 | 36,613 | … | 65.3 | 65.3 | 94.7 | 9.1 | 12.4 |
| 2005 | 36,353 | … | 55.7 | 55.7 | 92.7 | 8.8 | 11.9 |
| 2006 | 36,226 | … | 51.2 | 51.2 | 91.4 | 7.8 | 10.8 |
| 2007 | 36,453 | … | 47.7 | 47.7 | 89.0 | 7.5 | 10.5 |
| 2008 | 35,728 | … | 40.4 | 40.4 | 87.1 | 8.5 | 12.2 |

### 2008 REINSURANCE RECOVERABLES ($000)

| | Paid & Unpaid Losses | IBNR | Unearned Premiums | Other Recov* | Total Reins Recov |
|---|---|---|---|---|---|
| US Affiliates | 2,112,446 | 474,799 | 1,265,030 | … | 3,852,275 |
| US Insurers | 12,546 | 23,182 | … | … | 35,728 |
| Total (ex US Affils) | 12,546 | 23,182 | … | … | 35,728 |
| Grand Total | 2,124,992 | 497,981 | 1,265,030 | … | 3,888,003 |

* Includes Commissions less Funds Withheld

**Investment Leverage:** The group maintains high investment leverage relative to the private passenger automobile industry composite, as unaffiliated common stock represents approximately 70% of surplus. Nevertheless, the high investment leverage is partially mitigated by the group's historically strong portfolio management. In addition, the portfolio is well-diversified with allocations spread across a number of securities and industries. The group also maintains significant non-investment grade bond holdings, which equate to approximately 30% of surplus. These bonds are nearly all NAIC Class 4, most of which were purchased in the fourth quarter of 2008 to attain a higher investment yield.

### INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

| | Company | | | | | | Industry Composite | |
|---|---|---|---|---|---|---|---|---|
| Year | Class 3-6 Bonds | Real Estate/ Mtg. | Other Invested Assets | Common Stocks | Non-Affl Inv. Lev. | Affil Inv. | Class 3-6 Bonds | Common Stocks |
| 2004 | … | … | … | … | … | … | 1.3 | 55.1 |
| 2005 | … | … | … | … | … | … | 1.5 | 54.9 |
| 2006 | … | … | … | … | … | … | 1.2 | 55.0 |
| 2007 | … | … | … | … | … | … | 1.4 | 55.0 |
| 2008 | 16.2 | … | … | … | 16.2 | … | 3.1 | 41.3 |

# LIQUIDITY

The following text is derived from the report of Government Employees Group.

The group maintains sound balance sheet liquidity as non-affiliated invested assets comfortably exceed overall liabilities. However, quick, current and overall liquidity ratios lag the private passenger automobile industry composite. The group's liquidity ratios have declined in recent years, as invested asset growth decreased in 2006 due to extraordinary stockholder dividend payments to its parent and invested assets declined in 2008 due to significant unrealized capital losses on its equity portfolio. The group's liquidity position has been augmented by strong operating cash flows over the previous five-year period, which were driven by premium growth and profitable underwriting results. The group's liquidity position is also enhanced by the significant financial flexibility of its immediate parent, Sample Corporation, as well as its ultimate parent, Berkshire Hathaway Inc.

### LIQUIDITY ANALYSIS

| | Company | | | | Industry Composite | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Quick Liq (%) | Current Liq (%) | Overall Liq (%) | Gross Agents Bal to PHS(%) | Quick Liq (%) | Current Liq (%) | Overall Liq (%) | Gross Agents Bal to PHS(%) |
| 2004 | 78.2 | 177.2 | 180.3 | … | 68.2 | 145.9 | 185.2 | 3.7 |
| 2005 | 102.0 | 187.4 | 189.7 | … | 68.0 | 146.5 | 188.6 | 3.3 |
| 2006 | 116.4 | 186.3 | 188.0 | … | 73.8 | 155.4 | 197.6 | 2.6 |
| 2007 | 126.9 | 197.5 | 198.7 | … | 69.0 | 156.6 | 202.9 | 2.4 |
| 2008 | 126.3 | 214.1 | 217.4 | … | 52.4 | 142.5 | 190.4 | 3.0 |

### CASH FLOW ANALYSIS ($000)

| | Company | | | | | Industry Composite | |
|---|---|---|---|---|---|---|---|
| Year | Underw Cash Flow | Oper Cash Flow | Net Cash Flow | Underw Cash Flow (%) | Oper Cash Flow (%) | Underw Cash Flow (%) | Oper Cash Flow (%) |
| 2004 | 8,002 | 12,227 | 9,620 | -99.9 | -99.9 | 111.7 | 116.0 |
| 2005 | 86 | 5,326 | 19,673 | 49.4 | 755.8 | 105.3 | 109.8 |
| 2006 | -579 | 6,500 | 19,566 | 999.9 | 999.9 | 107.0 | 112.4 |
| 2007 | 4,078 | 10,231 | 6,712 | 999.9 | 713.8 | 102.7 | 109.3 |
| 2008 | -564 | 2,588 | -5,690 | 999.9 | 233.0 | 101.9 | 108.8 |

## HISTORY

Sample General Insurance Company was incorporated on March 27, 1978 under the temporary title Equi-Gen Insurance Company under the laws of Iowa to act as the vehicle for the transfer of corporate domicile of the Equitable General Insurance Company from Fort Worth, Texas, to Des Moines, Iowa, effective December 31, 1978. The predecessor company was incorporated under the laws of Texas on May 15, 1934 under the title Associated Casualty Company and began business the following day. Initially underwriting was restricted to workers' compensation coverages. That company name was changed to Houston Casualty Company on April 9, 1935; to Houston Fire and Casualty Insurance Company in 1936 when charter powers were extended to cover the issuance of all forms of insurance contracts, other than life; and to Houston General Insurance Company on December 31, 1971. The company again changed its corporate title on June 1, 1975 to Equitable General Insurance Company. The present name was adopted on September 29, 1982.

The Equitable General Insurance Company, on December 31, 1971, absorbed by merger its former parent company, Associated Employers Insurance Company, Fort Worth, Texas.

## MANAGEMENT

Complete financial control of Sample General was acquired on March 31, 1982 by Sample Insurance Company, Chevy Chase, Maryland, from the Equitable Life Assurance Society of the United States, New York, New York. The latter company (through its holding company subsidiary, Equitable Life Holding Corporation), acquired direct financial control of this company on December 9, 1974 from W. R. Berkley Corporation, New York, New York. The latter had acquired complete stock ownership two years earlier from Schick Investment Company, Los Angeles, California, a holding company affiliate of Frawley Enterprises, Inc., Los Angeles, California. Prior to the close of 1971 (and for approximately three years), Schick Investment had maintained indirect ownership of this company through the former Associated Employers Insurance Company.

Prior to September 1967, financial control had rested with Growth International, Inc., a Cleveland, Ohio investment firm. The latter had acquired its interest in May 1966 through the purchase of Inland Investment Company, Fort Worth, Texas (in which control resided about three years) from the estate of the late Kay Kimbell and the Kimbell Milling Company, also located in Fort Worth. The Kimbell interests had purchased stock ownership in 1944 from the original sponsor, Wesson Oil & Snowdrift Co., Inc.

Sample is wholly owned by, and the principal subsidiary of, Sample Corporation which, as of January 2, 1996, became a wholly-owned indirect subsidiary of Sample Inc., an insurance holding company which controls the thirty-three property / casualty companies and the five life/health companies. The holding company, in turn, is owned (33%) by Warren E. Buffett and family. Prior to January 2, 1996, Sample Corporation was a publicly owned holding company traded on the NYSE under the symbol SAMPLE.

Administration of the affairs of Sample General, since the early 1982 change in financial control, is under the direction of the same experienced insurance executives who guide the affairs of Government Employees Insurance Company. Olza M. Nicely, chairman, president and chief executive officer, serves in the same capacity for the latter named carrier.

**Officers:** Chairman of the Board, President and Chief Executive Officer, Olza M. Nicely; Executive Vice President, William E. Roberts; Senior Vice President and Chief Financial Officer, Michael H. Campbell (Corporate Financial Reporting); Senior Vice Presidents, Donald R. Lyons, Robert M. Miller; Group Vice President and Chief Information Officer, Jess C. Reed; Vice President and Chief Actuary, Warren A. Klawitter; Vice Presidents, James G. Brown, Shawn A. Burklin, Steven W. Cunningham, John J. Geer, Jr., Richard T. Guertin, Lily S. Hopkins, Seth M. Ingall, John J. Izzo, Stephen G. Kalinsky, Richard A. Kidd, John W. McCutcheon, James F. Nayden, Jr. (Legislative Counsel), Nancy L. Pierce, Dana K. Proulx, George W. Rogers, Rynthia M. Rost-Buccine, Tama S. Ruiz, Daniel S. Schechter, Jan C. Stewart, Joseph R. Thomas, Edward W. Ward III, Mary F. Zarcone; Secretary, William C. E. Robinson; Treasurer, Charles G. Schara; Controller, William J. McDonald.

**Directors:** Michael H. Campbell, John J. Geer, Jr., Seth M. Ingall, Stephen G. Kalinsky, Donald R. Lyons, Robert M. Miller, Olza M. Nicely, Nancy L. Pierce, William E. Roberts.

# REGULATORY

An examination of the financial condition was made as of December 31, 2004 by the Insurance Department of Maryland. The 2007 annual independent audit of the company was conducted by Deloitte & Touche, LLP. The annual statement of actuarial opinion is provided by Warren Klawitter, FCAS, Vice President and Actuary.

## TERRITORY

The company is licensed in the District of Columbia and all states.

## REINSURANCE PROGRAMS

All business is 100% reinsured with the parent company, Government Employees Insurance Company.

## BALANCE SHEET ($000)

| ADMITTED ASSETS | 12/31/2008 | 12/31/2007 | 2008 % | 2007 % |
|---|---|---|---|---|
| Bonds | 69,077 | 55,442 | 42.2 | 36.0 |
| Cash & short-term invest | 90,749 | 96,439 | 55.4 | 62.7 |
| Total invested assets | 159,826 | 151,881 | 97.6 | 98.7 |
| Accrued interest | 1,491 | 1,025 | 0.9 | 0.7 |
| All other assets | 2,463 | 956 | 1.5 | 0.6 |
| Total assets | 163,780 | 153,862 | 100.0 | 100.0 |

| LIABILITIES & SURPLUS | 12/31/2008 | 12/31/2007 | 2008 % | 2007 % |
|---|---|---|---|---|
| All other liabilities | 75,333 | 77,434 | 46.0 | 50.3 |
| Total liabilities | 75,333 | 77,434 | 46.0 | 50.3 |
| Capital & assigned surplus | 58,568 | 50,568 | 35.8 | 32.9 |
| Unassigned surplus | 29,879 | 25,861 | 18.2 | 16.8 |
| Total policyholders' surplus | 88,447 | 76,429 | 54.0 | 49.7 |
| Total liabilities & surplus | 163,780 | 153,862 | 100.0 | 100.0 |

## SUMMARY OF 2008 OPERATIONS ($000)

| STATEMENT OF INCOME | 12/31/2008 |
|---|---|
| Premiums earned | … |
| Losses incurred | … |
| Net underwriting income | … |
| Net investment income | 5,556 |
| Pre-tax oper income | 5,556 |
| Realized capital gains | 155 |
| Income taxes incurred | 1,292 |
| Net income | 4,418 |

| FUNDS PROVIDED FROM OPERATIONS | 12/31/2008 |
|---|---|
| Premiums collected | -568 |
| Benefit & loss related pmts | -4 |
| Undrw cash flow | -564 |
| Investment income | 5,101 |
| Pre-tax cash operations | 4,537 |
| Income taxes pd (recov) | 1,949 |
| Net oper cash flow | 2,588 |