ALLEGHANY CORP /DE
Form 10-K
February 27, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-9371

ALLEGHANY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**51-0283071** (I.R.S. Employer Identification Number)
7 Times Square Tower, New York, New York (Address of principal executive offices)	10036 (Zip Code)

Registrant s telephone number, including area code:
(212) 752-1356

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1.00 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:
Not applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company.

Yes o No þ

As of June 30, 2008, the aggregate market value (based upon the closing price of these shares on the New York Stock Exchange) of the shares of Common Stock of Alleghany Corporation held by non-affiliates was $2,161,992,492.

As of February 20, 2009, 8,273,891 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to Annual Meeting of Stockholders of Alleghany Corporation to be held on April 24, 2009 are incorporated into Part III of this Form 10-K Report.

ALLEGHANY CORPORATION

Form 10-K Report
for the year ended December 31, 2008

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Description

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PART I

References in this Form 10-K Report to the Company, Alleghany, we, us and our refer to Alleghany Corporation its consolidated subsidiaries, unless the context otherwise requires. In addition, unless the context otherwise requires, references to

AIHL are to our insurance holding company subsidiary Alleghany Insurance Holdings LLC,

RSUI are to our subsidiary RSUI Group, Inc. and its subsidiaries,

CATA are to our subsidiary Capitol Transamerica Corporation and its subsidiaries, and also includes the operations and results of Platte River Insurance Company, or Platte River, unless the context otherwise requires,

EDC are to our subsidiary Employers Direct Corporation and its subsidiaries,

AIHL Re are to our subsidiary AIHL Re LLC, and

Alleghany Properties are to our subsidiary Alleghany Properties Holdings LLC and its subsidiaries.

Items 1 and 2. Business and Properties.

BUSINESS OVERVIEW

We were incorporated in 1984 under the laws of the State of Delaware. In December 1986, we succeeded to the business of our parent company, Alleghany Corporation, a Maryland corporation incorporated in 1929, upon its liquidation. We are engaged, through AIHL and its subsidiaries RSUI, CATA and EDC, in the property and casualty and surety insurance business. We also own an approximately 33 percent stake in Homesite Group Incorporated, or Homesite, a national, full-service, mono-line provider of homeowners insurance. In June 2006, we established AIHL Re as a captive reinsurance subsidiary of AIHL, and AIHL Re has, in the past, been available to provide reinsurance to our insurance operating units and affiliates. We also own and manage properties in Sacramento, California through our subsidiary Alleghany Properties, and are indirectly engaged in the oil and gas exploration and production business through our 40 percent ownership stake in ORX Exploration, Inc., or ORX.

We owned approximately 55 percent of Darwin Professional Underwriters, Inc., or Darwin, a specialty property and casualty insurer until October 20, 2008, when it was merged with a subsidiary of Allied World Assurance Company Holdings, Ltd, or AWAC. We were engaged in the industrial minerals business through World Minerals, Inc. and its subsidiaries, or World Minerals, until July 14, 2005, when we sold that business to Imerys USA, Inc. We were also engaged, through our subsidiary Heads & Threads International LLC, or Heads & Threads, in the steel fastener importing and distribution business until December 31, 2004 when Heads & Threads was merged with an acquisition vehicle formed by a private investor group led by Heads & Threads management and Capital Partners, Inc. As a result of our disposition of Darwin, World Minerals and Heads & Threads, these businesses have been classified as discontinued operations in this Form 10-K Report, and we no longer have any foreign operations.

On July 1, 2003, AIHL completed the acquisition of Resurgens Specialty Underwriting, Inc., or Resurgens Specialty, a specialty wholesale underwriting agency, from Royal Group, Inc., a subsidiary of Royal & SunAlliance Insurance Group plc, or R&SA, for cash consideration, including capitalized expenditures, of approximately $116.0 million. Resurgens Specialty became a subsidiary of RSUI. In connection with the acquisition of Resurgens Specialty, on

June 30, 2003, RSUI acquired RSUI Indemnity Company, or RIC, to write admitted business underwritten by Resurgens Specialty, from Swiss Re America Holding Corporation for consideration of approximately $19.7 million, $13.2 million of which represented consideration for RIC s investment portfolio and the balance of which represented consideration for licenses. On September 2, 2003, RIC purchased Landmark American Insurance Company, or Landmark, to write non-admitted business underwritten by Resurgens Specialty, from R&SA for cash consideration of $33.9 million, $30.4 million of which represented consideration for Landmark s investment portfolio and the balance of which represented consideration for licenses. R&SA provided loss reserve guarantees for all of the loss and loss adjustment expense, or LAE, liabilities of Landmark that existed at the time of the sale. RIC and Landmark were further capitalized by us in an aggregate amount of approximately $520.0 million.

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On December 29, 2006, AIHL invested approximately $120.0 million in Homesite. As consideration for its $120.0 million investment, Alleghany received shares of common stock of Homesite representing approximately 33 percent of Homesite s outstanding common stock.

On July 18, 2007, AIHL acquired EDC for a purchase price of approximately $198.1 million, including approximately $5.6 million of incurred acquisition costs. AIHL owns approximately 98.5 percent of the common stock of EDC with EDC senior management owning the remainder.

On July 18, 2008, through our subsidiary Alleghany Capital Corporation, we acquired approximately 40 percent of the voting interests of ORX, a regional oil and gas exploration and production company, through a purchase of participating preferred stock for cash consideration of $50.0 million.

In 2008, we studied a number of potential acquisitions. We intend to continue to expand our operations through internal growth at our subsidiaries, as well as through possible operating company acquisitions and investments. At December 31, 2008, we had 826 employees, with 812 at our subsidiaries and 14 at the parent level. Our principal executive offices are located in leased office space of approximately 14,200 square feet at 7 Times Square Tower, New York, New York 10036, and our telephone number is (212) 752-1356.

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available, free of charge, on our website at www.alleghany.com, as soon as reasonably practicable after we electronically file or furnish this material to the Securities and Exchange Commission. Our Financial Personnel Code of Ethics, Code of Business Conduct and Ethics, Corporate Governance Guidelines and the charters for our Audit, Compensation and Nominating and Governance Committees are also available on our website. In addition, interested parties may obtain, free of charge, copies of any of the above reports or documents upon request to the Secretary of Alleghany.

We refer you to Items 7 and 8 of this Form 10-K Report for further information about our business in 2008. Our consolidated financial statements are set forth in Item 8 of this Form 10-K Report and include our accounts and the accounts of our subsidiaries for all periods presented.

Property and Casualty and Surety Insurance Businesses

General Description of Business

AIHL is our holding company for our property and casualty and surety insurance operations. Property and casualty operations are conducted through RSUI, headquartered in Atlanta, Georgia, CATA, headquartered in Middleton, Wisconsin, and EDC, headquartered in Agoura Hills, California. Surety operations are conducted through CATA. AIHL Re, our Vermont-domiciled captive reinsurance company, has, in the past, been available to provide reinsurance to our insurance operating units and affiliates. Unless we state otherwise, references to AIHL include the operations of RSUI, CATA, EDC and AIHL Re. Since December 31, 2006, AIHL has also owned an approximately 33 percent stake in Homesite, a national, full-service, mono-line provider of homeowners insurance.

In general, property insurance protects an insured against financial loss arising out of loss of property or its use caused by an insured peril. Casualty insurance protects the insured against financial loss arising out of the insured s obligation to others for loss or damage to property or persons, including, with respect to workers compensation insurance, persons who are employees. In 2008, property insurance accounted for approximately 38.8 percent and casualty insurance accounted for approximately 57.5 percent of AIHL s gross premiums written. Surety bonds, both commercial and contract, are three-party agreements in which the issuer of the bond (the surety) joins with a second party (the principal) in guaranteeing to a third party (the owner/obligee) the fulfillment of some obligation on the part of the principal to the owner/obligee. In 2008, surety bonds accounted for approximately 3.7 percent of AIHL s gross premiums written.

RSUI

General. RSUI, which includes the operations of its operating subsidiaries RIC, Landmark and Covington Specialty Insurance Company, or Covington, underwrites specialty insurance coverages in the property, umbrella/excess, general liability, directors and officers liability, or D&O, and professional liability lines of business. RSUI writes business on an admitted basis primarily through RIC in the 49 states and the District of Columbia where RIC is licensed and subject to form and rate regulations. RSUI writes business on an approved, non-admitted basis primarily through Landmark, which, as a non-admitted company, is not subject to state form and rate regulations and thus has more flexibility in its rates and coverages for specialized or hard-to-place risks. As of December 31, 2008, Landmark was approved to write business on a non-admitted basis in 49 states and on an admitted basis in Oklahoma. Covington, a New Hampshire domiciled insurer, was formed in September 2007 to, among other things, support future non-admitted business written primarily by RSUI s binding authority department, which writes small, specialized coverages pursuant to underwriting authority arrangements with managing general agents.

Pursuant to quota share arrangements effective as of January 1, 2009, Landmark and Covington cede 90 percent of all their respective premiums and losses, gross of third party reinsurance, to RIC. As of December 31, 2008, the statutory surplus of RIC was approximately $1,001.9 million, the statutory surplus of Landmark was approximately $143.9 million and the statutory surplus of Covington was approximately $25.6 million. RIC is rated A (Excellent) by A.M. Best Company, Inc., or A.M. Best, an independent organization that analyzes the insurance industry. Landmark is rated A (Excellent) on a reinsured basis by A.M. Best, and Covington is rated A (Excellent) on a group basis by A.M. Best. RSUI leases approximately 133,000 square feet of office space in Atlanta, Georgia for its headquarters and approximately 34,000 square feet of office space in Sherman Oaks, California.

Distribution. At December 31, 2008, RSUI conducted its insurance business through approximately 159 independent wholesale insurance brokers located throughout the United States and 24 managing general agents. RSUI s wholesale brokers are appointed on an individual basis based on management s appraisal of expertise and experience, and only specific locations of a wholesale broker s operations may be appointed to distribute RSUI s products. Producer agreements which stipulate premium collection, payment terms and commission arrangements are in place with each wholesale broker. No wholesale broker holds underwriting, claims or reinsurance authority. RSUI has entered into underwriting authority arrangements with 24 managing general agents for small, specialized coverages. RSUI s top five producing wholesale brokers accounted for approximately 52 percent of gross premiums written by RSUI in 2008. RSUI s top two producing wholesale brokers, Swett & Crawford Group and CRC Insurance Services, accounted for, in the aggregate, approximately 30 percent of AIHL s gross premiums written in 2008.

Underwriting. RSUI s underwriting philosophy is based on handling only product lines in which its underwriters have underwriting expertise. RSUI generally focuses on higher severity, lower frequency specialty risks that can be effectively desk underwritten without the need for inspection or engineering reviews. RSUI tracks underwriting results for each of its underwriters and believes that the underwriting systems and applications it has in place facilitate efficient underwriting and high productivity levels. Underwriting authority is delegated on a top-down basis ultimately to individual underwriters based on experience and expertise. This authority is in writing and addresses maximum limits, excluded classes and coverages and premium size referral. Referral to a product line manager is required for risks exceeding an underwriter s authority.

CATA

General. CATA, primarily through its wholly-owned subsidiaries Capitol Indemnity Corporation, or Capitol Indemnity, and Capitol Specialty Insurance Corporation, or CSIC, operates in 50 states and the District of Columbia, with a geographic concentration in the Midwestern and Plains states. Capitol Indemnity conducts its property and casualty insurance business on an admitted basis. Capitol Indemnity also writes surety products such as commercial surety bonds and contract surety bonds on a national basis. Commercial surety bonds include all surety bonds other than contract surety bonds and cover obligations typically required by law or regulation, such as license and permit coverage. Capitol Indemnity offers contract surety bonds in the non-construction segment of the market which secure performance under supply, service and maintenance contracts and developer subdivision bonds. CSIC conducts substantially all of its business on an approved, non-admitted basis and writes primarily specialty lines of property and casualty insurance for certain types of businesses or activities, including barber and beauty shops, bowling alleys, contractors, restaurants and taverns. Platte River is licensed in 50 states and the District of Columbia and operates in conjunction with Capitol Indemnity primarily by providing surety products and offering pricing flexibility in those jurisdictions where both Capitol Indemnity and Platte River are licensed.

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The property and casualty business of CATA accounted for approximately 76.0 percent of its gross premiums written in 2008, while the surety business accounted for the remainder.

As of December 31, 2008, the statutory surplus of Capitol Indemnity was approximately $169.8 million, the statutory surplus of CSIC was $27.5 million, and the statutory surplus of Platte River was approximately $29.7 million. Capitol Indemnity, CSIC and Platte River are rated A (Excellent) on a reinsured basis by A.M. Best. CATA leases approximately 55,000 square feet of office space in Middleton, Wisconsin for its and Platte River s headquarters.

Distribution. CATA conducts its insurance business through independent and general insurance agents located throughout the United States, with a concentration in the Midwestern and Plains states. At December 31, 2008, CATA had approximately 287 independent agents and 68 general agents licensed to write property and casualty and surety coverages, as well as approximately 285 independent agents licensed only to write surety coverages. The general agents write very little surety business and have full quoting and binding authority within the parameters of their agency contracts with respect to the property and casualty business that they write. Certain independent agents have binding authority for specific business owner policy products, including property and liability coverages and non-contract surety products. No agent of CATA had writings in excess of 10 percent of AIHL s gross premiums written in 2008.

Underwriting. CATA s underwriting strategy emphasizes underwriting profitability. Key elements of this strategy are prudent risk selection, appropriate pricing and coverage customization. All accounts are reviewed on an individual basis to determine underwriting acceptability. CATA is a subscriber to the Insurance Service Organization, or ISO, and Surety and Fidelity Association of America, or SFAA, insurance reference resources recognized by the insurance industry. Underwriting procedures, rates and contractual coverage obligations are based on procedures and data developed by the ISO for property and casualty lines and by the SFAA for surety lines. Underwriting acceptability is determined by type of business, claims experience, length of time in business and business experience, age and condition of premises occupied and financial stability. Information is obtained from, among other sources, agent applications, financial reports and on-site loss control surveys. If an account does not meet pre-determined acceptability parameters, coverage is declined. If an in-force policy becomes unprofitable due to extraordinary claims activity or inadequate premium levels, a non-renewal notice is issued in accordance with individual state statutes and rules.

Employers Direct Corporation

General. EDC s main business is workers compensation insurance, which is conducted on a direct basis through its wholly-owned subsidiary Employers Direct Insurance Company, or EDIC. EDIC was granted its Certificate of Authority by the California Department of Insurance and began writing workers compensation insurance on January 1, 2003. EDIC is currently licensed in seven additional states, but its sales effort is almost exclusively focused in California. Workers compensation insurance provides coverage for the statutorily prescribed benefits that employers are obligated to provide for their employees who are injured in the course of employment. In 2007, EDC formed eDirect Insurance Services, Inc. which does business as Plenary Insurance Services, or Plenary. Plenary is a commercial retail intermediary insurance brokerage and consulting company which specializes in the marketing and cross-selling to current EDIC policyholders of employee benefits and health and welfare plans, executive benefits, and voluntary benefits, which are employee benefit programs where the employee pays, generally through payroll deductions, 100 percent of the cost of benefits.

As of December 31, 2008, the statutory surplus of EDIC was approximately $140.7 million. EDIC is rated A- (Excellent) by A.M. Best. EDC leases approximately 66,000 square feet of office space in Agoura Hills, California.

Distribution. EDIC markets and sells its products primarily through a direct sales force, as well as through a managing general underwriter for certain program business.

Underwriting.

Direct Sales. For direct sales, EDIC employs a broad-based underwriting process, with underwriting standards that contain minimum sizes, retention levels and prohibited risk classes. Aggregate exposures are limited with respect to risk classifications and any individual insured. Exposure is managed by generally avoiding industries and businesses considered to involve the potential for severe losses or high exposure to multiple injuries resulting from a single occurrence. The underwriting process involves an evaluation of each potential insured for its acceptability, risk and loss exposures, and EDIC s ability to offer a competitive price consistent with its targeted loss ratio. The underwriting department monitors the performance of each account throughout the coverage period, and upon renewal, the profitability of each account is reviewed and factored into the terms and conditions of any coverage going forward.

Program Sales. In general, for program sales, EDIC develops specific underwriting guidelines for each program written. Classifications, premium size, financial requirements, audit performance and general operational characteristics are described. The underwriting process involves an evaluation of each potential insured for its acceptability, risk and loss exposures and fit within the program underwriting guidelines. The EDIC underwriting department monitors the performance of each program throughout the coverage period, and upon renewal, the profitability of the overall program and each large account is reviewed and factored into any renewal of the program. Although underwriting authority is designated, any risk with standard premium in excess of $150,000 is referred to EDIC and analyzed in a similar manner to direct sales business. For referred accounts, EDIC develops individual pricing plans and customizes loss control and claims programs.

AIHL Re LLC

AIHL Re was formed in June 2006 as a captive reinsurance subsidiary of AIHL to provide catastrophe reinsurance coverage for RSUI. AIHL Re and RSUI entered into a reinsurance agreement, effective July 1, 2006, whereby AIHL Re, in exchange for market-based premiums, took that portion of RSUI s catastrophe reinsurance program not covered by third-party reinsurers. This reinsurance coverage expired on April 30, 2007, and AIHL Re has not participated in RSUI s catastrophe reinsurance programs since that date.

AIHL Re and Homesite entered into a reinsurance agreement, effective April 1, 2007, whereby AIHL Re, in exchange for annual premium of approximately $2.0 million, provided $20.0 million of excess-of-loss reinsurance coverage to Homesite under its catastrophe reinsurance program which is concentrated in the Northeast region of the United States. To secure AIHL Re s obligations to make payments to Homesite under the April 1, 2007 agreement, a deposit of $20.0 million was made into a trust fund established for the benefit of Homesite. This reinsurance coverage expired on March 31, 2008, and AIHL Re did not participate in Homesite s catastrophe reinsurance program for the 2008-2009 period. In connection with the expiration of the reinsurance agreement, the trust fund established to secure AIHL Re s obligations to make payments to Homesite under such reinsurance agreement was dissolved and the $20.0 million in such fund was disbursed to AIHL Re in April 2008.

AIHL Re had no employees at December 31, 2008.

Changes in Historical Net Loss and LAE Reserves

The following table shows changes in historical net loss and LAE reserves for AIHL for each year since 2002. The first line of the upper portion of the table shows the net reserves at December 31 of each of the indicated years, representing the estimated amounts of net outstanding losses and LAE for claims arising during that year and in all prior years that are unpaid, including losses that have been incurred but not yet reported to AIHL s insurance operating units. The upper (paid) portion of the table shows the cumulative net amounts paid as of December 31 of successive years with respect to the net reserve liability for each year. The lower portion of the table shows the re-estimated amount of the previously recorded net reserves for each year based on experience as of the end of each succeeding year. The estimate changes as more information becomes known about claims for individual years. In evaluating the information in the table, it should be noted that a reserve amount reported in any period includes the effect of any subsequent change in such reserve amount. For example, if a loss was first reserved in 2002 at $100,000 and was determined in 2003 to be $150,000, the $50,000 deficiency would be included in the Cumulative (Deficiency) Redundancy row shown below for each of the years 2002 through 2007.

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Conditions and trends that have affected the development of the net reserve liability in the past may not necessarily occur in the future. Accordingly, it is not appropriate to extrapolate future redundancies or deficiencies based on this table.

Changes in Historical Net Reserves for Losses and LAE

	Years Ended December 31						
	2002	2003	2004	2005 (in millions)	2006	2007	2008
Net liability as of the end of year	$ 113.3	$ 276.0	$ 639.0	$ 952.9	$ 1,127.5	$ 1,412.9	$ 1,570.3
Cumulative amount of net liability paid as of:							
One year later	47.4	72.6	239.4	172.7	243.3	296.1	
Two years later	80.6	116.8	310.8	356.1	421.7		
Three years later	100.1	149.6	365.2	493.2			
Four years later	110.1	173.7	413.6				
Five years later	115.8	191.7					
Six years later	121.7						
Net liability re-estimated as of:							
One year later	134.0	268.7	631.8	943.2	1,115.4	1,370.0	
Two years later	147.7	264.6	620.1	941.2	1,047.9		
Three years later	149.0	268.1	593.3	899.7			
Four years later	150.7	263.8	584.1				
Five years later	153.5	262.0					
Six years later	151.7						
Cumulative (Deficiency) Redundancy	(38.4)	14.0	54.9	53.2	79.6	42.8	
Gross Liability-End of Year	$ 258.1	$ 438.0	$ 1,246.4	$ 2,571.9	$ 2,228.9	$ 2,379.7	$ 2,578.6
Less: Reinsurance Recoverable	144.8	162.0	607.4	1,619.0	1,101.4	966.8	1,008.3
Net Liability-End of Year	$ 113.3	$ 276.0	$ 639.0	$ 952.9	$ 1,127.5	$ 1,412.9	$ 1,570.3
Gross Re-estimated Liability-Latest	$ 295.2	$ 445.6	$ 1,200.4	$ 2,442.0	$ 2,078.6	$ 2,310.8	$ 2,578.6
Re-estimated Recoverable-Latest	143.5	183.6	616.3	1,542.3	1,030.7	940.8	1,008.3
Net Re-estimated Liability-Latest	$ 151.7	$ 262.0	$ 584.1	$ 899.7	$ 1,047.9	$ 1,370.0	$ 1,570.3
Gross Cumulative (Deficiency) Redundancy	$ (37.1)	$ (7.7)	$ 45.9	$ 129.9	$ 150.3	$ 68.9	$

The net cumulative redundancies in 2004, 2005 and 2006 primarily reflect net reserve releases by CATA and RSUI, partially offset by catastrophe related net reserve increases by RSUI in 2006 and 2007. RSUI s 2006 and 2007 reserving actions primarily reflect increases in estimated ultimate losses related to Hurricane Katrina, partially offset by reserve releases related to RSUI s casualty lines of business, as discussed on pages 44 and 45 of this Form 10-K Report.

The reconciliation between the aggregate net loss and LAE reserves of AIHL reported in the annual statements filed with state insurance departments prepared in accordance with statutory accounting practices, or SAP, and those

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reported in AIHL s consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP, for the last three years is shown below (in millions):

Reconciliation of Reserves for Losses and LAE from SAP Basis to GAAP Basis

	2008	2007	2006
Statutory reserves	$ 1,573.1	$ 1,417.4	$ 1,128.2
Reinsurance recoverables*	1,008.3	966.8	1,101.4
Purchase accounting adjustment	(2.8)	(4.5)	(0.7)
GAAP reserves	$ 2,578.6	$ 2,379.7	$ 2,228.9

* Reinsurance recoverables in this table include only ceded loss reserves. Amounts reflected under the caption Reinsurance recoverables on our consolidated balance sheets set forth in Item 8 of this Form 10-K Report also include paid loss recoverables.

The reconciliation of beginning and ending aggregate reserves for unpaid losses and LAE of AIHL for the last three years is shown below (in millions):