

**ANNUAL STATEMENT**

OF THE

**INDIANA INSURANCE COMPANY**

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of **INDIANAPOLIS**

in the state of **INDIANA**

TO THE

**Insurance Department**

OF THE

STATE OF

**FOR THE YEAR ENDED  
December 31, 2005**

PROPERTY AND CASUALTY

**2005**



22659200520100100

ANNUAL STATEMENT

For the Year Ended December 31, 2005

OF THE CONDITION AND AFFAIRS OF THE

Indiana Insurance Company

NAIC Group Code 0111 0111 NAIC Company Code 22659 Employer's ID Number 35-0410010

Organized under the Laws of Indiana, State of Domicile or Port of Entry Indiana

Country of Domicile United States of America

Incorporated/Organized: February 13, 1851 Commenced Business: February 13, 1851

Statutory Home Office: 350 East 96th Street Indianapolis, IN 46240

Main Administrative Office: 350 East 96th Street Indianapolis, IN 46240 317-581-6400

Mail Address: 175 Berkeley Street Boston, MA 02117

Primary Location of Books and Records: 175 Berkeley Street Boston, MA 02117 617-357-9500

Internet Website Address: www.indiana-ins.com

Statutory Statement Contact: Douglas Link 617-357-9500 45668 Douglas.Link@LibertyMutual.com 617-574-5955 (E-Mail Address) (Fax Number)

Policyowner Relations Contact: 62 Maple Avenue Keene, NH 03431 603-352-3221

OFFICERS

Chairman of the Board Gary Richard Gregg #

Table with 2 columns: Name, Title. Rows for Gary Richard Gregg #, Edmund Campion Kenealy #, James Francis Dore #.

Vice-Presidents

Table with 4 columns: Name, Title, Name, Title. Rows for Anthony Alexander Fontanes, Scott Rhodes Goodby #, Joseph Anthony Gilles #.

DIRECTORS OR TRUSTEES

Table with 4 columns: Name, Title, Name, Title. Rows for James Francis Dore, Gary Richard Gregg #, John Derek Doyle, Christopher Charles Mansfield, Joseph Anthony Gilles #, Kevin John Kirschner.

State of Massachusetts County of Suffolk ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature) Gary Richard Gregg (Printed Name) 1. President and Chief Executive Officer (Title) (Signature) Edmund Campion Kenealy (Printed Name) 2. Secretary (Title) (Signature) James Francis Dore (Printed Name) 3. Treasurer and Chief Financial Officer (Title)

Subscribed and sworn to before me this 27th day of January, 2006

a. Is this an original filing? YES [ X ] NO [ ] b. If no: 1. State the amendment number 2. Date filed 3. Number of pages attached

## ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D)	591,800,633		591,800,633	458,553,294
2. Stocks (Schedule D):				
2.1 Preferred stocks	3,115,160		3,115,160	3,115,160
2.2 Common stocks	100,107,692		100,107,692	95,452,776
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens				
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ 0 encumbrances)	15,748,011		15,748,011	16,096,634
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ 10,660,369, Schedule E-Part 1), cash equivalents (\$ 11,006,661, Schedule E-Part 2) and short-term investments (\$ 36,621,905, Schedule DA)	58,288,935		58,288,935	47,323,532
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)	1,094,941		1,094,941	2,204,966
8. Receivables for securities				10,796
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	770,155,372		770,155,372	622,757,158
11. Title plants less \$ 0 charged off (for Title insurers only)				
12. Investment income due and accrued	5,874,987		5,874,987	4,736,146
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	44,200,257	1,424,865	42,775,392	15,866,954
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 3,681,377 earned but unbilled premiums)	95,347,458	345,494	95,001,964	91,377,387
13.3 Accrued retrospective premiums				
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	21,518,347		21,518,347	
14.2 Funds held by or deposited with reinsured companies				
14.3 Other amounts receivable under reinsurance contracts				
15. Amounts receivable relating to uninsured plans				
16.1 Current federal and foreign income tax recoverable and interest thereon				
16.2 Net deferred tax asset	23,914,000	1,854,666	22,059,334	16,276,039
17. Guaranty funds receivable or on deposit	652,748		652,748	675,470
18. Electronic data processing equipment and software	434		434	20,146
19. Furniture and equipment, including health care delivery assets (\$ 0 )	29,092	29,092		
20. Net adjustment in assets and liabilities due to foreign exchange rates				
21. Receivables from parent, subsidiaries and affiliates				32,560,552
22. Health care (\$ 0 ) and other amounts receivable				
23. Aggregate write-ins for other than invested assets	2,119,572	462,775	1,656,797	903,019
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	963,812,267	4,116,892	959,695,375	785,172,871
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	963,812,267	4,116,892	959,695,375	785,172,871

DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 09 from overflow page				
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)				
2301. Other assets	841,340	462,775	378,565	118,454
2302. Equities and deposits in pools and associations	1,278,232		1,278,232	784,565
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	2,119,572	462,775	1,656,797	903,019

<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	241,473,533	210,808,710
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	17,582,506	
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	62,032,517	50,541,044
4. Commissions payable, contingent commissions and other similar charges	15,257,016	12,305,411
5. Other expenses (excluding taxes, licenses and fees)	6,112,049	1,500,507
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	4,079,647	4,970,722
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))	2,576,889	4,150,353
7.2 Net deferred tax liability		
8. Borrowed money \$ 0 and interest thereon \$ 0		
9. Unearned premiums (Part 1A, Line 37, Column 5) (after deducting unearned premiums for ceded reinsurance of \$ 154,831,140 and including warranty reserves of \$ 0 )	172,879,099	166,036,767
10. Advance premium	521,734	640,011
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		(1)
12. Ceded reinsurance premiums payable (net of ceding commissions)	18,642,070	
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)		
14. Amounts withheld or retained by company for account of others	8,580,892	6,709,931
15. Remittances and items not allocated		
16. Provision for reinsurance (Schedule F, Part 7)		
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding		629
19. Payable to parent, subsidiaries and affiliates	9,760,320	
20. Payable for securities	2,490,116	1,040,410
21. Liability for amounts held under uninsured accident and health plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	45,252,939	6,456,586
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	607,241,327	465,161,080
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	607,241,327	465,161,080
27. Aggregate write-ins for special surplus funds		
28. Common capital stock	4,000,000	4,000,000
29. Preferred capital stock	1,850,000	1,850,000
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes		
32. Gross paid in and contributed surplus	45,442,432	45,442,432
33. Unassigned funds (surplus)	301,161,616	268,719,359
34. Less treasury stock, at cost:		
34.1 0 shares common (value included in Line 28 \$ 0 )		
34.2 0 shares preferred (value included in Line 29 \$ 0 )		
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 39)	352,454,048	320,011,791
36. TOTALS (Page 2, Line 26, Col. 3)	959,695,375	785,172,871

<b>DETAILS OF WRITE-INS</b>		
2301. Other liabilities	1,427,005	1,874,935
2302. Collateral held for securities loaned	43,825,934	4,581,651
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page		
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	45,252,939	6,456,586
2701.		
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page		
2799. Totals (Lines 2701 through 2703 plus 2798) (Line 27 above)		
3001.		
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page		
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)		

<b>STATEMENT OF INCOME</b>		1	2
		Current Year	Prior Year
<b>UNDERWRITING INCOME</b>			
1. Premiums earned (Part 1, Line 34, Column 4)		353,429,871	321,873,761
DEDUCTIONS			
2. Losses incurred (Part 2, Line 34, Column 7)		174,370,093	172,451,210
3. Loss expenses incurred (Part 3, Line 25, Column 1)		46,501,719	41,447,631
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)		126,917,007	108,633,084
5. Aggregate write-ins for underwriting deductions			(791,442)
6. Total underwriting deductions (Lines 2 through 5)		347,788,819	321,740,483
7. Net income of protected cells			
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)		5,641,052	133,278
<b>INVESTMENT INCOME</b>			
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)		30,298,290	39,763,576
10. Net realized capital gains (losses) less capital gains tax of \$ 1,375,422 (Exhibit of Capital Gains (Losses))		2,554,355	7,048,101
11. Net investment gain (loss) (Lines 9 + 10)		32,852,645	46,811,677
<b>OTHER INCOME</b>			
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 0 amount charged off \$ 463,316 )		(463,316)	(857,614)
13. Finance and service charges not included in premiums		637,357	1,160,650
14. Aggregate write-ins for miscellaneous income		(270,355)	804,158
15. Total other income (Lines 12 through 14)		(96,314)	1,107,194
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)		38,397,383	48,052,149
17. Dividends to policyholders		583,865	442,866
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)		37,813,518	47,609,283
19. Federal and foreign income taxes incurred		11,947,049	(4,666,799)
20. Net income (Line 18 minus Line 19) (to Line 22)		25,866,469	52,276,082
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)		320,011,791	269,837,223
<b>GAINS AND (LOSSES) IN SURPLUS</b>			
22. Net income (from Line 20)		25,866,469	52,276,082
23. Net transfers (to) from Protected Cell accounts			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ (150,486)		1,407,420	2,582,747
25. Change in net unrealized foreign exchange capital gain (loss)			
26. Change in net deferred income tax		318,514	(21,428,530)
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)		5,701,480	18,718,294
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)			297,200
29. Change in surplus notes			
30. Surplus (contributed to) withdrawn from protected cells			
31. Cumulative effect of changes in accounting principles			
32. Capital changes:			
32.1 Paid in			
32.2 Transferred from surplus (Stock Dividend)			
32.3 Transferred to surplus			
33. Surplus adjustments:			
33.1 Paid in			
33.2 Transferred to capital (Stock Dividend)			
33.3 Transferred from capital			
34. Net remittances from or (to) Home Office			
35. Dividends to stockholders		(851,000)	(850,998)
36. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)			
37. Aggregate write-ins for gains and losses in surplus		(626)	(1,420,227)
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)		32,442,257	50,174,568
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)		352,454,048	320,011,791
<b>DETAILS OF WRITE-INS</b>			
0501. North Carolina 2004 Private Passenger Auto Escrow			(791,442)
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page			
0599. Totals (Lines 0501 through 0503 plus Line 0598) (Line 5 above)			(791,442)
1401. Other income/(expense)		(270,355)	804,158
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page			
1499. Totals (Lines 1401 through 1403 plus Line 1498) (Line 14 above)		(270,355)	804,158
3701. Other surplus adjustments		(626)	(1,420,227)
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page			
3799. Totals (Lines 3701 through 3703 plus Line 3798) (Line 37 above)		(626)	(1,420,227)

<b>CASH FLOW</b>	1	2
<b>Cash from Operations</b>	Current Year	Prior Year
1. Premiums collected net of reinsurance	348,356,927	294,321,241
2. Net investment income	30,407,886	43,688,664
3. Miscellaneous income	1,258,847	1,715,868
4. Total (Lines 1 through 3)	380,023,660	339,725,773
5. Benefit and loss related payments	147,641,740	302,641,123
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	155,255,179	193,430,121
8. Dividends paid to policyholders	583,865	442,867
9. Federal and foreign income taxes paid (recovered) \$ 0 net of tax on capital gains (losses)	14,895,935	1,371,886
10. Total (Lines 5 through 9)	318,376,719	497,885,997
11. Net cash from operations (Line 4 minus Line 10)	61,646,941	(158,160,224)
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	192,665,192	431,811,125
12.2 Stocks		
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets	1,129,456	4,087,600
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments		
12.7 Miscellaneous proceeds	1,460,503	
12.8 Total investment proceeds (Lines 12.1 to 12.7)	195,255,151	435,898,725
13. Cost of investments acquired (long-term only):		
13.1 Bonds	322,891,695	209,333,646
13.2 Stocks	3,257,986	9,781,681
13.3 Mortgage loans		
13.4 Real estate	150,299	593,790
13.5 Other invested assets		
13.6 Miscellaneous applications		13,984,588
13.7 Total investments acquired (Lines 13.1 to 13.6)	326,299,980	233,693,705
14. Net increase (decrease) in contract loans and premium notes		
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	(131,044,829)	202,205,020
<b>Cash from Financing and Miscellaneous Sources</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes		
16.2 Capital and paid in surplus, less treasury stock		
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders	850,999	1,063,748
16.6 Other cash provided (applied)	81,214,290	(109,180,311)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	80,363,291	(110,244,059)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	10,965,403	(66,199,263)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	47,323,532	113,522,795
19.2 End of year (Line 18 plus Line 19.1)	58,288,935	47,323,532

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001.		
20.0002.		
20.0003.		

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 1- PREMIUMS EARNED

Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire	3,960,338	1,984,003	2,045,139	3,899,202
2. Allied lines	3,525,557	1,772,550	1,811,415	3,486,692
3. Farmowners multiple peril	2,716,217	1,550,822	1,418,371	2,848,668
4. Homeowners multiple peril	29,817,867	16,486,422	15,787,014	30,517,275
5. Commercial multiple peril	122,134,165	53,054,710	57,937,094	117,251,781
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine	10,940,841	4,428,380	4,836,971	10,532,250
10. Financial guaranty				
11.1 Medical malpractice - occurrence				
11.2 Medical malpractice - claims-made				
12. Earthquake	1,200,709	617,796	634,752	1,183,753
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health				
16. Workers' compensation	46,667,688	16,707,800	19,185,950	44,189,538
17.1 Other liability - occurrence	20,369,313	8,563,560	9,525,899	19,406,974
17.2 Other liability - claims-made				
18.1 Products liability - occurrence	410,234	198,592	206,066	402,760
18.2 Products liability - claims-made				
19.1, 19.2 Private passenger auto liability	29,131,803	15,494,516	13,486,210	31,140,109
19.3, 19.4 Commercial auto liability	51,022,135	22,624,905	24,230,124	49,416,916
21. Auto physical damage	37,382,237	19,194,471	17,838,123	38,738,585
22. Aircraft (all perils)				
23. Fidelity	1,555	(88,534)	21,300	(108,279)
24. Surety	168,147	318,546	148,703	337,990
26. Burglary and theft	110,451	21,012	22,966	108,497
27. Boiler and machinery	89,945	48,840	61,625	77,160
28. Credit				
29. International				
30. Reinsurance-Nonproportional Assumed Property				
31. Reinsurance-Nonproportional Assumed Liability				
32. Reinsurance-Nonproportional Assumed Financial Lines				
33. Aggregate write-ins for other lines of business				
34. TOTALS	359,649,202	162,978,391	169,197,722	353,429,871

DETAILS OF WRITE-INS				
3301.				
3302.				
3303.				
3398. Summary of remaining write-ins for Line 33 from overflow page				
3399. Totals (Lines 3301 through 3303 plus 3398) (Line 33 above)				

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 1A - RECAPITULATION OF ALL PREMIUMS**

(a) Gross premiums (less reinsurance) and unearned premiums on all unexpired risks and reserve for return premiums under rate credit or retrospective rating plans based upon experience.

Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (b)	2 Amount Unearned (Running More Than One Year from Date of Policy) (b)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1. Fire	2,045,139				2,045,139
2. Allied lines	1,811,415				1,811,415
3. Farmowners multiple peril	1,418,371				1,418,371
4. Homeowners multiple peril	15,787,014				15,787,014
5. Commercial multiple peril	59,335,853		(1,398,759)		57,937,094
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	4,836,971				4,836,971
10. Financial guaranty					
11.1 Medical malpractice - occurrence					
11.2 Medical malpractice - claims-made					
12. Earthquake	634,752				634,752
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	20,865,170		(1,679,220)		19,185,950
17.1 Other liability - occurrence	10,129,296		(603,398)		9,525,898
17.2 Other liability - claims-made					
18.1 Products liability - occurrence	206,066				206,066
18.2 Products liability - claims-made					
19.1, 19.2 Private passenger auto liability	13,486,210				13,486,210
19.3, 19.4 Commercial auto liability	24,230,125				24,230,125
21. Auto physical damage	17,838,123				17,838,123
22. Aircraft (all perils)					
23. Fidelity	8,519	12,781			21,300
24. Surety	109,751	38,952			148,703
26. Burglary and theft	22,966				22,966
27. Boiler and machinery	61,625				61,625
28. Credit					
29. International					
30. Reinsurance-Nonproportional Assumed Property					
31. Reinsurance-Nonproportional Assumed Liability					
32. Reinsurance-Nonproportional Assumed Financial Lines					
33. Aggregate write-ins for other lines of business					
34. TOTALS	172,827,366	51,733	(3,681,377)		169,197,722
35. Accrued retrospective premiums based on experience					
36. Earned but unbilled premiums					3,681,377
37. Balance (Sum of Line 34 through 36)					172,879,099

DETAILS OF WRITE-INS					
3301.					
3302.					
3303.					
3398. Summary of remaining write-ins for Line 33 from overflow page					
3399. Totals (Lines 3301 through 3303 plus 3398) (Line 33 above)					

- (a) By gross premiums is meant the aggregate of all the premiums written in the policies or renewals in force.  
 Are they so returned in this statement? Yes [ X ] No [ ]
- (b) State here basis of computation used in each case Daily pro rata



**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 1B - PREMIUMS WRITTEN**

Gross Premiums (Less Return Premiums), Including Policy and Membership Fees  
Written and Renewed During Year

Line of Business	1 Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
		2 From Affiliates	3 From Non- Affiliates	4 To Affiliates	5 To Non- Affiliates	
1. Fire	2,230,887	3,960,338		2,230,887		3,960,338
2. Allied lines	2,061,434	3,525,557		2,061,434		3,525,557
3. Farmowners multiple peril	4,326,655	2,716,217		4,326,655		2,716,217
4. Homeowners multiple peril	52,934,261	29,817,867		52,934,261		29,817,867
5. Commercial multiple peril	77,706,870	122,134,165		77,706,870		122,134,165
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	4,078,997	10,940,841		4,078,997		10,940,841
10. Financial guaranty						
11.1 Medical malpractice - occurrence						
11.2 Medical malpractice - claims-made						
12. Earthquake	3,221,637	1,200,709		3,221,637		1,200,709
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	28,323,100	46,667,688		28,323,100		46,667,688
17.1 Other liability - occurrence	33,611,591	20,369,313		33,611,591		20,369,313
17.2 Other liability - claims-made						
18.1 Products liability - occurrence	199,755	410,234		199,755		410,234
18.2 Products liability - claims-made						
19.1, 19.2 Private passenger auto liability	42,161,458	29,131,803		42,161,458		29,131,803
19.3, 19.4 Commercial auto liability	29,549,687	51,022,135		29,549,687		51,022,135
21. Auto physical damage	42,029,139	37,382,237		42,029,139		37,382,237
22. Aircraft (all perils)						
23. Fidelity		1,555				1,555
24. Surety	5,377	168,147		5,377		168,147
26. Burglary and theft	4,821	110,451		4,821		110,451
27. Boiler and machinery	16,453	89,945		16,453		89,945
28. Credit						
29. International						
30. Reinsurance-Nonproportional Assumed Property	X X X					
31. Reinsurance-Nonproportional Assumed Liability	X X X					
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X					
33. Aggregate write-ins for other lines of business						
34. TOTALS	322,462,122	359,649,202		322,462,122		359,649,202

DETAILS OF WRITE-INS						
3301.						
3302.						
3303.						
3398. Summary of remaining write-ins for Line 33 from overflow page						
3399. Totals (Lines 3301 through 3303 plus 3398) (Line 33 above)						

(a) Does the company's direct premiums written include premiums recorded on an installment basis? Yes [ ] No [X]  
 If yes: 1. The amount of such installment premiums \$ 0  
 2. Amount at which such installment premiums would have been reported had they been recorded on an annualized basis \$ 0

**UNDERWRITING AND INVESTMENT EXHIBIT  
PART 2 - LOSSES PAID AND INCURRED**

Line of Business	Losses Paid Less Salvage				5 Net Losses Unpaid Current Year (Part 2A, Col. 8)	6 Net Losses Unpaid Prior Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)				
1. Fire	595,557	1,381,059	595,557	1,381,059	404,618	563,644	1,222,033	31.341
2. Allied lines	760,135	2,014,299	760,135	2,014,299	1,308,064	282,108	3,040,255	87.196
3. Farmowners multiple peril	1,941,429	1,152,323	1,941,429	1,152,323	613,580	725,907	1,039,996	36.508
4. Homeowners multiple peril	28,383,865	14,831,534	28,383,865	14,831,534	6,404,185	6,487,283	14,748,436	48.328
5. Commercial multiple peril	49,831,995	39,848,976	49,831,995	39,848,976	77,273,217	64,030,949	53,091,244	45.280
6. Mortgage guaranty								
8. Ocean marine		220		220	(653,820)	61,544	(715,144)	
9. Inland marine	530,804	2,723,841	530,804	2,723,841	1,082,424	889,066	2,917,199	27.698
10. Financial guaranty								
11.1 Medical malpractice - occurrence								
11.2 Medical malpractice - claims - made								
12. Earthquake					12	20,030	(20,018)	(1.691)
13. Group accident and health								
14. Credit accident and health (group and individual)								
15. Other accident and health								
16. Workers' compensation	21,788,072	19,121,802	21,788,072	19,121,802	59,096,031	49,304,916	28,912,917	65.429
17.1 Other liability - occurrence	8,711,625	3,538,046	8,711,625	3,538,046	19,014,689	16,071,598	6,481,137	33.396
17.2 Other liability - claims - made								
18.1 Products liability - occurrence		51,557		51,557	(165,550)	323,922	(437,915)	(108.729)
18.2 Products liability - claims - made								
19.1, 19.2 Private passenger auto liability	36,446,479	22,598,879	36,446,479	22,598,879	29,202,314	32,595,651	19,205,542	61.675
19.3, 19.4 Commercial auto liability	15,752,447	19,340,550	15,752,447	19,340,550	44,810,519	37,266,026	26,885,043	54.405
21. Auto physical damage	20,341,772	17,159,915	20,341,772	17,159,915	1,217,618	854,474	17,523,059	45.234
22. Aircraft (all perils)								
23. Fidelity	(257)	3,020	(257)	3,020	3,466	10,135	(3,649)	3.370
24. Surety	(260)	84,888	(260)	84,888	438,607	132,521	390,974	115.676
26. Burglary and theft		5,581		5,581	(6,579)	429,973	(430,971)	(397.219)
27. Boiler and machinery	7,826	(151,222)	7,826	(151,222)	741,847	70,672	519,953	673.863
28. Credit								
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X							
31. Reinsurance-Nonproportional Assumed Liability	X X X				688,291	688,291		
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X							
33. Aggregate write-ins for other lines of business								
34. TOTALS	185,091,489	143,705,268	185,091,489	143,705,268	241,473,533	210,808,710	174,370,091	49.337

**DETAILS OF WRITE-INS**

3301.								
3302.								
3303.								
3398. Summary of remaining write-ins for Line 33 from overflow page								
3399. Totals (Lines 3301 through 3303 + 3398) (Line 33 above)								

**UNDERWRITING AND INVESTMENT EXHIBIT  
PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

Line of Business	Reported Losses				Incurred But Not Reported			8 Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	9 Unpaid Loss Adjustment Expenses
	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded		
1. Fire	92,005	322,892	92,005	322,892	11,429	81,726	11,429	404,618	14,942
2. Allied lines	19,155	1,070,235	19,155	1,070,235	12,430	237,828	12,430	1,308,063	(37,394)
3. Farmowners multiple peril	811,525	497,145	811,525	497,145	36,946	116,436	36,946	613,581	145,685
4. Homeowners multiple peril	10,373,312	5,001,989	10,373,312	5,001,989	480,432	1,402,196	480,432	6,404,185	1,447,931
5. Commercial multiple peril	57,563,659	45,910,707	57,563,659	45,910,707	28,117,186	31,362,510	28,117,186	77,273,217	32,153,164
6. Mortgage guaranty									
8. Ocean marine						(653,820)		(653,820)	(5,933)
9. Inland marine	803,300	923,333	803,300	923,333	13,105	159,091	13,105	1,082,424	280,655
10. Financial guaranty									
11.1 Medical malpractice - occurrence									
11.2 Medical malpractice - claims - made									
12. Earthquake		12		12				12	(43,311)
13. Group accident and health								(a)	282
14. Credit accident and health (group and individual)								(a)	20
15. Other accident and health								(a)	20
16. Workers' compensation	36,838,500	33,018,341	36,838,500	33,018,341	8,857,439	26,077,693	8,857,439	59,096,034	9,126,874
17.1 Other liability - occurrence	11,539,312	6,330,289	11,539,312	6,330,289	23,053,285	12,684,400	23,053,285	19,014,689	4,404,384
17.2 Other liability - claims - made									
18.1 Products liability - occurrence	41,399	76,882	41,399	76,882	69,895	(242,433)	69,895	(165,551)	102,046
18.2 Products liability - claims - made									136
19.1, 19.2 Private passenger auto liability	33,544,258	20,238,419	33,544,258	20,238,419	11,691,886	8,963,895	11,691,886	29,202,314	6,629,609
19.3, 19.4 Commercial auto liability	20,220,123	21,960,819	20,220,048	21,960,894	28,625,239	22,849,598	28,625,212	44,810,519	7,306,319
21. Auto physical damage	1,066,546	1,196,168	1,066,621	1,196,093	14,567	21,552	14,594	1,217,618	283,086
22. Aircraft (all perils)									
23. Fidelity		3,184		3,184		282		3,466	11,383
24. Surety		277,360		277,360		161,246		438,606	170,744
26. Burglary and theft		1,279		1,279	(43,321)	(7,859)	(43,321)	(6,580)	53,506
27. Boiler and machinery		955		955	2,316	740,892	2,316	741,847	(11,612)
28. Credit									
29. International									
30. Reinsurance-Nonproportional Assumed Property	X X X				X X X				
31. Reinsurance-Nonproportional Assumed Liability	X X X	66,775		66,775	X X X	621,516		688,291	
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
33. Aggregate write-ins for other lines of business									
34. TOTALS	172,913,094	136,896,784	172,913,094	136,896,784	100,942,834	104,576,749	100,942,834	241,473,533	62,032,516

DETAILS OF WRITE-INS									
3301.									
3302.									
3303.									
3398. Summary of remaining write-ins for Line 33 from overflow page									
3399. Totals (Lines 3301 through 3303 + 3398) (Line 33 above)									

(a) Including \$ 0 for present value of life indemnity claims.

**UNDERWRITING AND INVESTMENT EXHIBIT  
PART 3 - EXPENSES**

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	27,164,110			27,164,110
1.2 Reinsurance assumed	21,911,017			21,911,017
1.3 Reinsurance ceded	27,164,110			27,164,110
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	21,911,017			21,911,017
2. Commission and brokerage:				
2.1 Direct, excluding contingent		45,269,810		45,269,810
2.2 Reinsurance assumed, excluding contingent		53,517,342		53,517,342
2.3 Reinsurance ceded, excluding contingent		45,269,810		45,269,810
2.4 Contingent-direct		(25,516,364)		(25,516,364)
2.5 Contingent-reinsurance assumed		14,260,504		14,260,504
2.6 Contingent-reinsurance ceded		(25,516,364)		(25,516,364)
2.7 Policy and membership fees				
2.8 Net commission and brokerage (2.1 + 2.2 - 2.3 + 2.4 + 2.5 - 2.6 + 2.7)		67,777,846		67,777,846
3. Allowances to manager and agents		102,308		102,308
4. Advertising	263,988	996,515	658	1,261,161
5. Boards, bureaus and associations	330,903	418,869		749,772
6. Surveys and underwriting reports	5,516	1,691,762		1,697,278
7. Audit of assureds' records	7	20		27
8. Salary and related items:				
8.1 Salaries	11,127,532	23,919,212	154,385	35,201,129
8.2 Payroll taxes	808,872	2,160,482	5,923	2,975,277
9. Employee relations and welfare	2,371,799	6,486,470	7,831	8,866,100
10. Insurance	641,768	203,236	175	845,179
11. Directors' fees	88	1,479		1,567
12. Travel and travel items	699,788	2,191,374	2,216	2,893,378
13. Rent and rent items	822,155	2,881,744	2,391	3,706,290
14. Equipment	940,936	2,123,241	2,654	3,066,831
15. Cost or depreciation of EDP equipment and software	1,037,010	1,651,274	1,623	2,689,907
16. Printing and stationery	202,224	547,344	351	749,919
17. Postage, telephone and telegraph, exchange and express	484,342	1,422,466	6,010	1,912,818
18. Legal and auditing	195,935	485,250	13,732	694,917
19. Totals (Lines 3 to 18)	19,932,863	47,283,046	197,949	67,413,858
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 103,381		8,764,291		8,764,291
20.2 Insurance department licenses and fees		242,801		242,801
20.3 Gross guaranty association assessments		16,369		16,369
20.4 All other (excluding federal and foreign income and real estate)		288,221		288,221
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		9,311,682		9,311,682
21. Real estate expenses			1,058,287	1,058,287
22. Real estate taxes			237,869	237,869
23. Reimbursements by uninsured accident and health plans				
24. Aggregate write-ins for miscellaneous expenses	4,657,840	2,544,434	21,409	7,223,683
25. Total expenses incurred	46,501,720	126,917,008	1,515,514	(a) 174,934,242
26. Less unpaid expenses-current year	62,032,517	25,448,713		87,481,230
27. Add unpaid expenses-prior year	50,541,044	18,776,640		69,317,684
28. Amounts receivable relating to uninsured accident and health plans, prior year				
29. Amounts receivable relating to uninsured accident and health plans, current year				
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	35,010,247	120,244,935	1,515,514	156,770,696

DETAILS OF WRITE-INS				
2401. Change in unallocated expense reserves	3,394,894			3,394,894
2402. Other expenses	1,262,946	2,544,434	21,409	3,828,789
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	4,657,840	2,544,434	21,409	7,223,683

(a) Includes management fees of \$ 219,359 to affiliates and \$ 0 to non-affiliates.

**EXHIBIT OF NET INVESTMENT INCOME**

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 3,326,421	4,378,285
1.1 Bonds exempt from U.S. tax	(a) 399,066	1,563,187
1.2 Other bonds (unaffiliated)	(a) 20,367,080	19,290,572
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b) 176,988	193,550
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	3,284,519	3,284,519
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d) 2,496,683	2,496,683
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 1,035,294	1,018,095
7. Derivative instruments	(f) (89,046)	(89,046)
8. Other invested assets	63,084	63,084
9. Aggregate write-ins for investment income	113,796	113,796
10. Total gross investment income	31,173,886	32,312,726
11. Investment expenses		(g) 1,515,514
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i) 498,922
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		2,014,436
17. Net investment income (Line 10 minus Line 16)		30,298,290
<b>DETAILS OF WRITE-INS</b>		
0901. Miscellaneous Income/(Expense).....	113,796	113,796
0902. ....		
0903. ....		
0998. Summary of remaining write-ins for Line 9 from overflow page		
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)	113,796	113,796
1501. ....		
1502. ....		
1503. ....		
1598. Summary of remaining write-ins for Line 15 from overflow page		
1599. Totals (Lines 1501 through 1503) plus 1598 (Line 15, above)		

- (a) Includes \$ 433,683 accrual of discount less \$ 1,181,657 amortization of premium and less \$ 976,988 paid for accrued interest on purchases.
- (b) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued dividends on purchases.
- (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (d) Includes \$ 2,496,683 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 151,217 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (f) Includes \$ 0 accrual of discount less \$ 0 amortization of premium.
- (g) Includes \$ 0 investment expenses and \$ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$ 0 interest on surplus notes and \$ 0 interest on capital notes.
- (i) Includes \$ 498,922 depreciation on real estate and \$ 0 depreciation on other invested assets.

**EXHIBIT OF CAPITAL GAINS (LOSSES)**

	1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Increases (Decreases) by Adjustment	4 Total
1. U.S. Government bonds	60,230			60,230
1.1 Bonds exempt from U.S. tax				
1.2 Other bonds (unaffiliated)	3,848,577		(139,996)	3,708,581
1.3 Bonds of affiliates				
2.1 Preferred stocks (unaffiliated)				
2.11 Preferred stocks of affiliates				
2.2 Common stocks (unaffiliated)			(1,414,386)	(1,414,386)
2.21 Common stocks of affiliates			2,811,317	2,811,317
3. Mortgage loans				
4. Real estate				
5. Contract loans				
6. Cash, cash equivalents and short-term investments				
7. Derivative instruments				
8. Other invested assets	20,971			20,971
9. Aggregate write-ins for capital gains (losses)				
10. Total capital gains (losses)	3,929,778		1,256,935	5,186,713

<b>DETAILS OF WRITE-INS</b>				
0901. ....				
0902. ....				
0903. ....				
0998. Summary of remaining write-ins for Line 9 from overflow page				
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)				

**EXHIBIT OF NONADMITTED ASSETS**

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks			
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA)			
6. Contract loans			
7. Other invested assets (Schedule BA)			
8. Receivables for securities			
9. Aggregate write-ins for invested assets			
10. Subtotals, cash and invested assets (Lines 1 to 9)			
11. Title plants ( for Title insurers only )			
12. Investment income due and accrued			
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	1,424,865	1,561,468	136,603
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	345,494	302,837	(42,657)
13.3 Accrued retrospective premiums			
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers			
14.2 Funds held by or deposited with reinsured companies			
14.3 Other amounts receivable under reinsurance contracts			
15. Amounts receivable relating to uninsured plans			
16.1 Current federal and foreign income tax recoverable and interest thereon			
16.2 Net deferred tax asset	1,854,666	7,168,961	5,314,295
17. Guaranty funds receivable or on deposit			
18. Electronic data processing equipment and software			
19. Furniture and equipment, including health care delivery assets	29,092	116,357	87,265
20. Net adjustment in assets and liabilities due to foreign exchange rates			
21. Receivable from parent, subsidiaries and affiliates			
22. Health care and other amounts receivable			
23. Aggregate write-ins for other than invested assets	462,775	668,749	205,974
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	4,116,892	9,818,372	5,701,480
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	4,116,892	9,818,372	5,701,480

<b>DETAILS OF WRITE-INS</b>			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 09 from overflow page			
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)			
2301. Other assets	462,775	668,749	205,974
2302.			
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page			
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	462,775	668,749	205,974

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## NOTES TO FINANCIAL STATEMENTS

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### **Note 1- Summary of Significant Accounting Policies**

#### A. Accounting Practices

Effective January 1, 2001, and subject to any deviations prescribed or permitted by the State of Indiana, the accompanying financial statements of Indiana Insurance Company (the "Company") have been prepared in conformity with the National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual* ("APP Manual").

#### B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. It also requires estimates in the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

#### C. Accounting Policies

Premiums are earned over the terms of the related policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro-rata methods for direct business and are based on reports received from ceding companies for reinsurance assumed. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable.

In addition, the Company uses the following accounting policies:

1. Investment grade short-term investments are carried at cost adjusted where appropriate for amortization of premium or discount, or market as specified by the Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO Manual).
2. Investment grade bonds are carried at cost adjusted where appropriate for amortization of premium or discount, or market as specified by the SVO Manual.
3. Common stocks are carried at market value, except that investments in stocks of subsidiaries and affiliates are carried according to Note 1 C(7).
4. Preferred stocks are carried at cost or market in accordance with the SVO Manual.
5. The Company does not own mortgage loans.
6. Mortgage-backed/asset backed securities are stated at amortized value. Prepayment assumptions for single class mortgage-backed/asset backed securities and multi-class securities were obtained from internal estimates. These assumptions are consistent with the current interest rate and economic environment. The retrospective adjustment method is used to value all single class mortgage-backed/asset-backed securities and multi-class securities. Non-investment grade mortgage-backed/asset backed securities are stated at the lower of amortized value or fair value.
7. The Company carries its investments in subsidiaries, controlled, and affiliated (SCA) companies in accordance with SSAP No. 88, *Investment in Subsidiaries, Controlled Entities, and Affiliates*, and the SVO Manual. Schedule D Part 6-Section 1 illustrates the valuation method used for each SCA company.
8. The Company has no investments in joint ventures, partnerships or limited liability companies.
9. Derivative instruments, refer to Note 8.
10. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 53, *Property-Casualty Contracts - Premiums*.
11. Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and follow current standards of practice. Any adjustments to the liability are reflected in the period that they are determined.
12. The Company did not change its capitalization policy in 2005.

### **Note 2- Accounting Changes and Correction of Errors**

- A. There were no material changes in accounting principles or corrections of errors during the year.

### **Note 3- Business Combinations and Goodwill**

- A. Statutory Purchase Method, including Mezzanine Real Estate Loans.

The Company did not enter into any statutory purchases during the year.

- B. Statutory Mergers

The Company did not enter into any statutory mergers during the year.

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## NOTES TO FINANCIAL STATEMENTS

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## C. Impairment Loss

Not applicable

**Note 4- Discontinued Operations**

The Company has no discontinued operations to report.

**Note 5- Investments**

## A. Mortgage Loans, including Mezzanine Real Estate Loans

The Company does not hold any mortgage loans as investments.

## B. Troubled Debt Restructuring for Creditors

Not applicable

## C. Reverse Mortgages

The Company has no reverse mortgages.

## D. Loan-Backed Securities

1. The Company has elected to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities purchased prior to that date, where historical cash flows are not readily available.
2. Prepayment assumptions for single class and multi-class mortgages-backed/asset-backed securities were based upon 1-month historical constant prepayment rates.
3. The Company used IDSI, Bloomberg, and Lehman Index data in determining the market value of the vast majority of its loan-backed securities. A small number of securities are priced in other ways, such as contacting brokers.
4. The Company had no negative yield situations requiring a change from the retrospective to prospective method.

## E. Repurchase Agreements

The Company did not enter into any repurchase agreements during the year.

## F. Real Estate

1. The Company did not incur any impairments on real estate during the year.
2. The Company does not engage in retail land sale operations.

**Note 6- Joint Ventures, Partnerships & Limited Liability Companies**

## A. The Company has no investments in joint ventures, partnerships, or limited liability companies.

## B. Impairments, partnerships and limited liability companies.

Not applicable

**Note 7- Investment Income**

## A. Accrued Investment Income

All investment income due and accrued over 90 days past due is excluded from Surplus.

## B. Amounts Nonadmitted

No amounts were excluded as of December 31, 2005.

**Note 8- Derivative Instruments**

The Company was not a party to any derivative financial instruments during the year.

**Note 9 - Income Taxes**

## A. The components of the net deferred tax assets and liabilities recognized in the Company's Assets, Liabilities, Surplus and Other Funds are as follows:

	December 31, 2005	December 31, 2004	Change
Total of gross deferred tax assets	29,445,000	25,370,834	4,074,166
Total of deferred tax liabilities	(5,531,000)	(1,925,833)	(3,605,167)
Net deferred tax asset	23,914,000	23,445,001	468,999
Net deferred tax asset non-admitted	(1,854,666)	(7,168,961)	5,314,295
Net admitted deferred tax asset	<b>22,059,334</b>	<b>16,276,040</b>	<b>5,783,294</b>



**NOTES TO FINANCIAL STATEMENTS**

- B. The Company does not have any deferred tax liabilities described in SSAP No. 10, Income Taxes, paragraph 6d.
- C. The provisions for incurred taxes on earnings for the years ended December 31 are:

	2005	2004
Federal tax on operations	11,947,049	(5,224,034)
Net operating loss benefit	0	(1,909,600)
Foreign tax on operations	0	0
Income tax incurred on operations	11,947,049	(7,133,634)
Tax on capital gains	1,375,422	2,466,835
Total income tax incurred	13,322,471	(4,666,799)

The Company's deferred tax assets and liabilities result primarily from discounting of unpaid loss and LAE reserves, limits on unearned premium reserve deductions, investment impairments, fixed asset depreciation differences, and statutory non-admitted assets.

The change in deferred income taxes is comprised of the following:

	2005
Change in net deferred income tax (without unrealized gain or loss)	318,513
Tax effect of unrealized (gains) losses	150,486
Total change in net deferred income tax	468,999

- D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest, dividends-received deductions, travel and entertainment, goodwill, revisions to prior year estimates and changes in deferred taxes related to statutory non-admitted assets.
- E. The amount of Federal income taxes paid and available for recoupment in the event of future losses is \$10,443,000 from the current year and none from the preceding year.

The Company has no net loss carryforward available to offset future net income subject to Federal income taxes.

- F. The Company's Federal income tax return is consolidated with the following entities:

Access Insurance Services, Co.	Liberty International Holdings, Inc.
Ambco Capital Corporation	Liberty Life Assurance Company of Boston
America First Insurance Company	Liberty Life Holdings, Inc.
America First Lloyds Insurance Company	Liberty Lloyds of Texas Insurance Company
American Ambassador Casualty Company	Liberty Management Services, Inc.
Berkeley Holding Company Associates, Inc.	Liberty Mexico Holdings, Inc.
Berkeley Management Corporation	Liberty Mutual Fire Insurance Company
Bridgefield Casualty Insurance Company	Liberty Mutual Group Inc.
Bridgefield Employers Insurance Company	Liberty Mutual Holding Company, Inc.
Capitol Agency, Inc. (Arizona corporation)	Liberty Mutual Insurance Company
Capitol Agency, Inc. (Ohio corporation)	Liberty Mutual Managed Care, Inc.
Capitol Agency, Inc. (Tennessee corporation)	Liberty Northwest Insurance Corporation
Cascade Disability Management, Inc.	Liberty Personal Insurance Company
Colorado Casualty Insurance Company	Liberty RE (Bermuda) Limited
Companies Agency Insurance Services of California	Liberty Real Estate Corporation
Companies Agency of Alabama, Inc.	Liberty Sponsored Insurance (Vermont) Inc.
Companies Agency of Georgia, Inc.	Liberty Surplus Insurance Corporation
Companies Agency of Kentucky, Inc.	Liberty-USA Corporation
Companies Agency of Massachusetts, Inc.	LIH-Re of America Corporation
Companies Agency of Michigan, Inc.	LIH U.S. P&C Corporation
Companies Agency of New York, Inc.	LIIA Insurance Agency, Inc.
Companies Agency of Pennsylvania, Inc.	LIU Specialty Agency, Inc.
Companies Agency of Phoenix, Inc.	LLS Insurance Agency of Nevada, Inc.
Companies Agency, Inc.	LM Insurance Corporation
Companies Annuity Agency of Texas, Inc.	LMHC Massachusetts Holding, Inc.
Consolidated Insurance Company	LRE Properties, Inc.
Copley Venture Capital, Inc.	Mid-American Agency, Inc.
Countrywide Services Corporation	Mid-American Fire and Casualty Company
Diversified Settlements, Inc.	Missouri Agency, Inc.
Employers Insurance Company of Wausau	North Pacific Insurance Company
Excelsior Insurance Company	Oregon Automobile Insurance Company
First State Agency, Inc.	Peerless Indemnity Insurance Company
Florida State Agency, Inc.	Peerless Insurance Company
Globe American Casualty Company	LM Personal Insurance Company
Golden Eagle Insurance Corporation	LM General Insurance Company
Gulf States AIF, Inc.	LM Property and Casualty Insurance Company
Hawkeye-Security Insurance Company	San Diego Insurance Company
Helmsman Insurance Agency of Illinois, Inc.	State Agency, Inc. (Indiana corporation)
Helmsman Insurance Agency of Texas, Inc.	State Agency, Inc. (Wisconsin corporation)
Heritage-Summit Healthcare of Florida, Inc.	St. James Insurance Company
Indiana Insurance Company	Summit Consulting, Inc.
LEXCO Limited	Summit Consulting, Inc. of Louisiana

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## NOTES TO FINANCIAL STATEMENTS

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Liberty Assignment Corporation Liberty Energy Corporation Liberty Financial Services, Inc. Liberty Hospitality Group, Inc. Liberty Insurance Company of America Liberty Insurance Corporation Liberty Insurance Holdings, Inc. Liberty Insurance Underwriters, Inc. Liberty International Asia Pacific Holdings, Inc.	Summit Holding Southeast, Inc. The First Liberty Insurance Corporation The Midwestern Indemnity Company The National Corporation The Netherlands Insurance Company Wausau Business Insurance Company Wausau General Insurance Company Wausau Service Corporation Wausau Underwriters Insurance Company
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The method of federal income tax allocation is subject to a written agreement. Allocation is based upon separate return calculations with credit applied for losses as appropriate. The Company has the enforceable right to recoup prior year payments in the event of future losses.

### **Note 10- Information concerning Parent, Subsidiaries and Affiliates**

- A. The company is a wholly owned subsidiary of LIH US P&C Corporation, an insurance holding company incorporated in the state of Delaware. All of the outstanding shares of LIH US P&C Corporation are owned by Liberty Insurance Holdings, Inc., an insurance holding company incorporated in the state of Delaware. Liberty Insurance Holdings, Inc. is wholly owned by Liberty Mutual Insurance Company, a Massachusetts insurance company. The ultimate parent of Liberty Mutual Insurance Company is Liberty Mutual Holding Company, a Massachusetts company.
- B. Transactions entered into by the Company with its affiliates are described on Schedule Y Part 2.
- C. See Note 26.
- D. At December 31, 2005, the Company reported \$9,760,320 due to affiliates. In general, the terms of the intercompany arrangements require settlement at least quarterly.
- E. The Company has made no guarantee or initiated undertaking for the benefit of affiliates which result in a material contingent exposure of the Company's or affiliates' assets or liabilities.
- F. The Company entered into a services agreement (the "Agreement"), effective January 1, 1999, with Peerless Insurance Company (PIC) and other affiliates. The Agreement allows parties to the Agreement to provide services related to common management functions including, but not limited to, coordinating marketing and advertising, information systems support, payroll and human resources services, actuarial support, accounting and other financial services, as well as consulting and other services as the parties may request.

The Company entered into investment management agreements, effective May 26, 1999 with Liberty Mutual Insurance Company (LMIC), and effective May 1, 2000 with Liberty Mutual Investment Advisors LLC (LMIA). Under these agreements, LMIC and LMIA provide investment management services to the Company.

The Company entered into a cash management agreement with LMIA effective January 1, 2000.

The Company entered into a Federal Tax Sharing Agreement, effective January 1, 2002, between LMIC and affiliates (see Note 9F).

The Company entered into a management services agreement, effective December 15, 2001, with Liberty Mutual Insurance Company (LMIC). Under the agreement, LMIC may provide services related to common management functions including, but not limited to, accounting, financial, tax and auditing, information technology and support, purchasing, payroll, and employee benefits, policy administration, real estate management, legal, general administration, as well as consulting and other services as the parties may request.

- G. The Company is part of a holding company structure as illustrated in Schedule Y Part 1.
- H. The Company does not own shares of an upstream company, either directly or indirectly.
- I. The Company has no investments in subsidiary, controlled or affiliated companies that exceed 10% of its admitted assets.
- J. The Company did not recognize any impairment write down for its subsidiary, controlled, or affiliated companies during the statement period.

### **Note 11- Debt**

Not applicable.

### **Note 12- Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans**

The Company does not have any direct employees and therefore, does not have any direct obligations for a defined benefit plan, deferred compensation arrangements, compensated absences or other post retirement benefit plans. Services for the operation of the Company are provided under provisions of an intercompany cost-sharing arrangement as described in note 10 F.

## NOTES TO FINANCIAL STATEMENTS

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### **Note 13- Capital and Surplus, Shareholders' Dividend restrictions and Quasi-Reorganizations**

1. Common Stock

The Company has 4,800,000 shares authorized, and 3,200,000 shares issued and outstanding as of December 31, 2005. All shares have a stated par value of \$1.25.

2. Preferred Stock

The Company has 4,500,000 shares authorized, and 925,000 shares issued and outstanding as of December 31, 2005. All shares have a stated par value of \$2.00.

The dividend rate is equal to the yield on 5 year Treasury Notes as of the issue date, adjusted every five years. Dividends are paid on the last business day of each calendar quarter. The Company paid \$212,750 in dividends on the last business day of each calendar quarter. The stock is redeemable at \$20 per share with 30 days notice. In the event of liquidation, holders of the preferred stock are entitled to receive an amount equal to \$20 per share.

3. Dividend Restrictions

There are no dividend restrictions.

4. The maximum amount of dividends which can be paid by Indiana-domiciled insurance companies to shareholders without prior approval of the Insurance Commissioner is the greater of (a) 10% of surplus, or (b) net income. The maximum dividend payout which may be made without prior approval in 2006 is \$35,245,405.

5. The Company does not have restricted unassigned surplus.

6. The Company had no advances to surplus.

7. The Company did not hold stock for special purposes.

8. The Company had no changes in special surplus funds.

9. The portion of unassigned funds (surplus) represented by cumulative unrealized gains and (losses) is \$50,862,252.

10. Surplus Notes

Not applicable

11. Quasi re-organization (dollar impact)

Not applicable

12. Quasi re-organization (effective date)

Not applicable

### **Note 14- Contingencies**

A. Contingent Commitments

The Company has no commitments or contingent commitments to affiliates or other entities and as indicated in Note 10E, the Company has made no guarantees on behalf of affiliates.

B. Assessments

The Company is subject to guaranty funds and other assessments by the states in which it writes business. Guaranty funds assessments are accrued at the time of insolvencies. Other assessments are accrued either at the time of assessments or in the case of premium based assessments, at the time the premiums are written, or, in the case of loss based assessments, at the time the losses are incurred.

The Company has accrued a liability for guaranty funds and other assessments of \$2,351,399 that is offset by future premium tax credits of \$652,748. This represents management's best estimate based on information received from the states in which the Company writes business and may change due to factors including the company's share of the ultimate cost of current insolvencies. Current assessments are expected to be paid out in the next five years, while premium tax offsets are expected to be realized in the next ten years.

During 2005 there were no material insolvencies to report. The company continues to remit payments relating to prior year insolvencies.

C. Gain Contingencies

Not applicable

D. All other Contingencies

Lawsuits arise against the Company in the normal course of business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the financial position of the Company.

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## NOTES TO FINANCIAL STATEMENTS

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**Note 15- Leases**

- A. The following is a schedule of the Company's minimum lease obligations under these agreements for the next five years:

2006	\$1,244,311
2007	1,052,969
2008	915,965
2009	570,972
2010	474,490
2011 & thereafter	<u>1,138,835</u>
Total	<u>\$5,397,542</u>

- B. Leasing as a significant part of lessor's business activities

Not applicable

**Note 16- Information About Financial Instruments With Off-Balance Sheet Risk And Financial Instruments With Concentrations of Credit Risk**

The Company is not exposed to financial instruments with off-balance sheet risk or concentrations of credit risk.

**Note 17- Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

- A. Transfers of Receivables reported as sales:

The company did not sell premium receivables.

- B. Transfers and servicing of financial assets:

The Company participates in Securities lending program to generate additional income, whereby certain fixed income securities are loaned for a short period of time from the Company's portfolio to qualifying third parties, via a lending agent. Borrowers of these securities provide collateral equal to or in excess of, 102% of the market value of the loaned securities. Acceptable collateral may be in the form of cash or U.S. Government securities. The market value of the loaned securities is monitored and additional collateral is obtained if the market value of the collateral falls below 100% of the market value of the loaned securities. Under the terms of the securities lending program, the lending agent indemnifies the Company against borrower defaults. The loaned securities remain a recorded asset of the Company, however, the Company records a liability for the amount of collateral held, representing its obligation to return the collateral related to the loaned securities. At December 31, 2005, the total market value of fixed maturities loaned was \$84,387,211, with corresponding collateral value at \$86,344,869.

- C. Wash Sales

The Company did not have any wash sales transactions during the year.

**Note 18- Gain or Loss from Uninsured Accident and Health Plans and the Uninsured Portion of Partially Insured Plans**

- A. Administrative Services Only (ASO) Plans

Not applicable

- B. Administrative Services Contract (ASC) Plans

Not applicable

- C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts

Not applicable

**Note 19- Direct Premium Written/Produced by Managing General Agents/ Third Party Administrators**

The Company has no direct premiums written through managing general agents or third party administrators.

**Note 20 – September 11 Events**

The Company has no material exposure to losses arising from the World Trade Center disaster of September 11, 2001.

**Note 21- Other Items**

- A. The Company has no extraordinary items to report.

- B. Troubled Debt Restructuring for Debtors

Not applicable

- C. Other Disclosures

1. Assets in the amount of \$1,701,791 and \$1,720,461 as of December 31, 2005 and 2004, respectively, were on deposit with government authorities or trustees as required by law.

## NOTES TO FINANCIAL STATEMENTS

- D. The Company routinely assesses the collectibility of its premium receivable. Based upon Company experience, amounts in excess of non-admitted amounts are not believed to be material.
- E. Business Interruption Insurance Recoveries  
The Company does not purchase Business Interruption coverage.
- F. Additional Pension and Postretirement Disclosure Requirements  
Refer to Note 12.

### **Note 22- Events Subsequent**

There were no events subsequent to December 31, 2005 which would require disclosure.

### **Note 23- Reinsurance**

- A. Excluding amounts arising pursuant to the inter-company Reinsurance Agreement, as described in Note 26, there are no unsecured reinsurance recoverables with an individual reinsurer which exceed 3% of policyholders surplus.
- B. There are no reinsurance recoverables in dispute from an individual reinsurer which exceed 5% of the Company's surplus. In addition, the aggregate reinsurance recoverables in dispute do not exceed 10% of the Company's surplus.
- C. Reinsurance Assumed & Ceded
1. The following table sets forth the maximum return premium and commission equity due the reinsurer or the Company if all of the Company's assumed and ceded reinsurance were canceled as of December 31, 2005.

	<u>Assumed Reinsurance</u>		<u>Ceded Reinsurance</u>		<u>Net Reinsurance</u>	
	<u>UEP</u>	<u>Commission Equity</u>	<u>UEP</u>	<u>Commission Equity</u>	<u>UEP</u>	<u>Commission Equity</u>
Affiliates	\$172,879,099	\$24,270,150	\$154,831,140	\$21,736,433	\$18,047,959	\$2,533,717
All Other	0	0	0	0	0	0
Total	<u>\$172,879,099</u>	<u>\$24,270,150</u>	<u>\$154,831,140</u>	<u>\$21,736,433</u>	<u>\$18,047,959</u>	<u>\$2,533,717</u>

Direct unearned premium reserve of \$154,831,140

2. There are no sliding scale adjustments, or other profit sharing commissions for direct, assumed or ceded business. Following are the contingent commissions for direct, assumed and ceded business.

Direct	\$28,838,578
Assumed	14,766,674
Ceded	<u>(28,838,578)</u>
Net	<u>\$14,766,674</u>

- D. The Company did not write off any uncollectible balances in 2005.
- E. The Company does not have ceded commutations.
- F. The Company does not have any retroactive reinsurance agreements.
- G. The Company has not entered into any deposit type reinsurance agreements as of December 31, 2005.

### **Note 24 - Retrospectively Rated Contracts and Contracts Subject to Redetermination**

The Company does not write loss responsive policies or policies subject to redetermination.

### **Note 25 - Changes in Incurred Losses and Loss Adjustment Expenses**

Reserves for incurred loss and loss adjustment expenses attributed to insured events of prior years has decreased during 2005 as a result of improving loss trends in General Liability and Personal Auto Liability. Prior estimates are revised as additional information becomes known regarding individual claims.

## NOTES TO FINANCIAL STATEMENTS

### **Note 26- Intercompany Pooling Arrangements**

The Company is a member of the Peerless Insurance Company (PIC) Inter-Company Reinsurance Agreement consisting of the following affiliated companies:

		NAIC Co. #	Pooling %	Lines of Business
Lead Company	Peerless Insurance Company (PIC)	24198	70.93%	All Lines
Affiliated Pool Companies:	Peerless Indemnity Insurance Company (PIIC)	18333	0.30%	All Lines
	Golden Eagle Insurance Corporation (GEIC)	10836	13.25%	All Lines (Except WC)
	Indiana Insurance Company (IIC)	22659	12.25%	All Lines
	The Netherlands Insurance Company (NIC)	24171	3.27%	All Lines
	Montgomery Mutual Insurance Company (MMC)	14613	0.00%	All Lines
	Excelsior Insurance Company (EIC)	11045	0.00%	All Lines
	Consolidated Insurance Company (CIC)	22640	0.00%	All Lines
	America First Insurance Company (AFIC)	12696	0.00%	All Lines
	Merchants and Business Men's Mutual Insurance Company (M&B)	14486	0.00%	All Lines
	Colorado Casualty Insurance Company (CCIC)	41785	0.00%	All Lines
	America First Lloyd's Insurance Company (AFLIC)	11526	0.00%	All Lines
			100.00%	
100% Quota Share Affiliated Companies:	National Insurance Association (NIA)	27944	0.00%	All Lines
	Mid-America Fire & Casualty Company (MAFCC)	23507	0.00%	All Lines
	Globe American Casualty Company (GACC)	11312	0.00%	All Lines
	American Ambassador Casualty Company (AACC)	10073	0.00%	All Lines
	Hawkeye-Security Insurance Company (HSIC)	36919	0.00%	All Lines

Under the terms of the Reinsurance Agreements, the sequence of transactions is as follows:

- (a) Each Affiliated Pool Company cedes its net underwriting activity to the lead company.
- (b) Each 100% Quota Share Affiliated Company cedes its net underwriting activity to PIIC.
- (c) After recording the assumed affiliate transactions noted above, the lead company records 100% of its external assumed and ceded reinsurance activity.
- (d) The lead company's remaining underwriting activity, after processing all internal and external reinsurance is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above.
- (e) There were no members that are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement and have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.
- (f) There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the lead company and corresponding entries on the assumed and ceded reinsurance schedules of other pooled participants.
- (g) The write-off of uncollectible reinsurance is pooled and the Provision for Reinsurance is recognized by the entity placing the outbound external reinsurance.

Pursuant to the approval of the appropriate State Insurance Departments, effective January 1, 2005:

The PIC pool participation percentages were revised as follows:

	2005	2004
Peerless Insurance Company	70.93%	41.59%
Peerless Indemnity Insurance Company	0.30%	27.36%
Montgomery Mutual Insurance Company	0.00%	2.28%

### **Note 27- Structured Settlements**

- A. As a result of purchased annuities with the claimant as payee, The Company no longer carries reserves of \$2,939,055 after applying Inter-Company Reinsurance Agreement percentages. The Company is contingently liable should the issuers of the purchased annuities fail to perform under the terms of the annuities. The amount of unrecorded loss contingencies related to the purchased annuities was \$2,939,055 as of December 31, 2005.
- B. The Company does not have material structured settlements from life insurers for which the Company has not obtained a release of liability from the claimant.

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## NOTES TO FINANCIAL STATEMENTS

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### **Note 28 - Health Care Receivables**

Not applicable

### **Note 29 - Participating Policies**

Not applicable

### **Note 30 – Premium Deficiency Reserves**

As of December 31, 2005, the Company had no liabilities related to premium deficiency reserves. The Company considers anticipated investment income when calculating its premium deficiency reserves.

### **Note 31- High Dollar Deductible Policies**

The Company does not have any high deductible policies.

### **Note 32- Discounting of Liabilities for Unpaid Losses and Unpaid Loss Adjustment Expenses**

For Workers Compensation, the Company discounts its reserves for unpaid losses using a tabular discount on the long-term annuity portion of certain workers compensation claims. The tabular discount is based on Unit Statistical Plan tables as approved by the respective states at an annual discount rate of 3.5%. The December 31, 2005, liabilities of \$61,954,252 are carried at a discounted value of \$59,096,034 representing a discount of \$2,858,218.

For all other lines, the Company does not discount its reserves for unpaid losses and loss adjustment expenses.

### **Note 33 - Asbestos/Environmental Reserves**

The Company has exposure to asbestos and environmental claims which emanate principally from general liability policies written prior to the mid-1980's. In establishing the Company's asbestos and environmental reserves, the Company estimates case basis reserves for anticipated losses and bulk reserves for loss adjustment expenses and incurred but not reported losses. The Company maintained casualty excess of loss reinsurance during the relevant periods. The reserves are reported net of expected recoveries from reinsurers and include any reserves reported by ceding reinsurers on assumed reinsurance contracts.

Upon their de-affiliation from the Nationwide Group and re-affiliation with the Company, EICOW, Wausau Business Insurance Company ("WBIC"), Wausau General Insurance Company ("WGIC"), and Wausau Underwriters Insurance Company ("WUIC") entered into ceded reinsurance contracts whereby Nationwide Indemnity Company assumed full responsibility for obligations on certain policies with effective dates prior to January 1, 1986, including all asbestos and environmental exposures.

#### *Factors Contributing to Uncertainty in Establishing Adequate Reserves*

The process of establishing reserves for asbestos and environmental claims is subject to greater uncertainty than the establishment of reserves for liabilities relating to other types of insurance claims. A number of factors contribute to this greater uncertainty surrounding the establishment of asbestos and environmental reserves, including, without limitation: (i) the lack of available and reliable historical claims data as an indicator of future loss development, (ii) the long waiting periods between exposure and manifestation of any bodily injury or property damage, (iii) the difficulty in identifying the source of asbestos or environmental contamination, (iv) the difficulty in properly allocating liability for asbestos or environmental damage, (v) the uncertainty as to the number and identity of insureds with potential exposure, (vi) the cost to resolve claims, and (vii) the collectibility of reinsurance.

The uncertainties associated with establishing reserves for asbestos and environmental losses and loss adjustment expenses are compounded by the differing, and at times inconsistent, court rulings on environmental and asbestos coverage issues involving: (i) the differing interpretations of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered, (ii) when the loss occurred and what policies provide coverage, (iii) whether there is an insured obligation to defend, (iv) whether a compensable loss or injury has occurred, (v) how policy limits are determined, (vi) how policy exclusions are applied and interpreted, (vii) the impact of entities seeking bankruptcy protection as a result of asbestos-related liabilities, (viii) whether clean-up costs are covered as insured property damage, and (ix) applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim.

In recent years the Company, as well as the industry generally, has witnessed a significant increase in the number of asbestos claims being filed, due to a number of variables, including more intensive advertising by lawyers seeking asbestos claimants, and the increasing focus by plaintiffs on new and previously peripheral defendants, attempts to broaden the interpretation of compensable loss, and courts expanding the scope of the coverage.

#### *Uncertainty Regarding Reserving Methodologies*

As a result of the significant uncertainty inherent in determining a company's asbestos and environmental liabilities and establishing related reserves, the amount of reserves required to adequately fund the Company's asbestos and environmental claims cannot be accurately estimated using conventional reserving methodologies based upon historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations including managerial judgment.

#### *Effect of Uncertainty in Reserving For Asbestos and Environmental Claims on Company's Financial Condition*

The methods of determining estimates for reported and unreported losses and establishing resulting reserves and related reinsurance recoverables are periodically reviewed and updated, and adjustments resulting from this review are reflected in income currently.

## NOTES TO FINANCIAL STATEMENTS

As a direct result of the significant uncertainties associated with estimating its asbestos and environmental exposures and establishing appropriate levels of reserves, the ultimate liability of the Company for asbestos and environmental exposures may vary materially from the reserves currently recorded. The Company and other industry members have and will continue to litigate the broadening judicial interpretation of policy coverage and the liability issues. If the courts continue to expand the scope of the coverage provided, additional liabilities could emerge for amounts in excess of reserves held. This emergence, as well as the other uncertainties noted above, cannot now be reasonably estimated, but could have a material impact on the Company's future operating results, and financial condition.

The table below summarizes reserve and loss activity for the Company's asbestos and environmental loss and loss adjustment expenses for each of the five most recent calendar years. Gross reserves for both asbestos and environmental are representative of all Liberty Insurance Holdings pooled companies. Net reserves for asbestos and environmental are allocated based on the Company's Intercompany Reinsurance Agreement as discussed in Note 26.

**Asbestos:**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Direct Basis</b>					
Beginning Reserves	1,309,822	1,373,189	1,863,009	2,111,885	2,215,573
Incurring losses and LAE	187,688	704,375	421,332	395,984	295,415
Calendar year payments	124,321	214,555	172,456	292,296	304,680
Ending Reserves	1,373,189	1,863,009	2,111,885	2,215,573	2,206,308
<b>Assumed Reinsurance Basis</b>					
Beginning Reserves	318,971	245,209	163,846	116,208	36,872
Incurring losses and LAE	-	-	-	-	-
Calendar year payments	73,762	81,363	47,638	79,336	-
Ending Reserves	245,209	163,846	116,208	36,872	36,872
<b>Net of Ceded Reinsurance Basis</b>					
Beginning Reserves	1,296,713	1,303,681	1,550,212	1,927,148	1,760,845
Incurring losses and LAE	169,882	496,125	597,031	146,107	237,494
Calendar year payments	162,914	249,594	220,095	312,410	304,680
Ending Reserves	1,303,681	1,550,212	1,927,148	1,760,845	1,693,659
<b>Ending Reserves for Bulk + IBNR included above (Loss &amp; LAE)</b>					
Direct Basis					1,680,022
Assumed Reinsurance Basis					36,873
Net of Ceded Reinsurance Basis					1,342,802
<b>Ending Reserves for LAE included above (Case, Bulk &amp; IBNR)</b>					
Direct Basis					471,588
Assumed Reinsurance Basis					-
Net of Ceded Reinsurance Basis					411,508

**Environmental:**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Direct Basis</b>					
Beginning Reserves	3,491,946	2,522,955	1,535,443	1,521,258	1,635,287
Incurring losses and LAE	(410,718)	-	67,052	221,388	1,015,082
Calendar year payments	558,273	987,512	81,237	107,359	574,126
Ending Reserves	2,522,955	1,535,443	1,521,258	1,635,287	2,076,243
<b>Assumed Reinsurance Basis</b>					
Beginning Reserves	63,217	80,293	92,206	686,658	636,877
Incurring losses and LAE	-	-	612,500	-	16,855
Calendar year payments	(17,076)	(11,913)	18,048	49,781	2,287
Ending Reserves	80,293	92,206	686,658	636,877	651,445



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**NOTES TO FINANCIAL STATEMENTS**


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<b>Net of Ceded Reinsurance Basis</b>					
Beginning Reserves	2,504,850	2,256,387	1,280,876	2,139,282	1,792,172
Incurred losses and LAE	286,677	-	957,691	23,716	530,672
Calendar year payments	535,140	975,511	99,285	370,826	576,413
Ending Reserves	<u>2,256,387</u>	<u>1,280,876</u>	<u>2,139,282</u>	<u>1,792,172</u>	<u>1,746,431</u>
<b>Ending Reserves for Bulk + IBNR included above (Loss &amp; LAE)</b>					
Direct Basis					1,419,449
Assumed Reinsurance Basis					636,878
Net of Ceded Reinsurance Basis					1,611,670
<b>Ending Reserves for LAE included above (Case, Bulk &amp; IBNR)</b>					
Direct Basis					576,386
Assumed Reinsurance Basis					-
Net of Ceded Reinsurance Basis					502,954

**Note 34- Subscriber Savings Accounts**

The Company is not a reciprocal insurance company.

**Note 35 - Multiple Peril Crop Insurance**

Not applicable

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	120,072,499	15.591	120,072,499	15.591
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies				
1.3 Foreign government (including Canada, excluding mortgage-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	54,309,407	7.052	54,309,407	7.052
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	51,698,779	6.713	51,698,779	6.713
1.43 Revenue and assessment obligations	26,060,459	3.384	26,060,459	3.384
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	26,872,434	3.489	26,872,434	3.489
1.512 Issued or guaranteed by FNMA and FHLMC	163,980,240	21.292	163,980,240	21.292
1.513 All other	4,512,197	0.586	4,512,197	0.586
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	3,624,374	0.471	3,624,374	0.471
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All other	2,216,394	0.288	2,216,394	0.288
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	138,453,850	17.977	138,453,850	17.977
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds				
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated	3,115,160	0.404	3,115,160	0.404
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	44,333,733	5.756	44,333,733	5.756
3.4 Other equity securities:				
3.41 Affiliated	55,773,959	7.242	55,773,959	7.242
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company	15,748,011	2.045	15,748,011	2.045
5.2 Property held for production of income (including \$ 0 of property acquired in satisfaction of debt)				
5.3 Property held for sale (including \$ 0 property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities				
8. Cash, cash equivalents and short-term investments	58,288,935	7.568	58,288,935	7.568
9. Other invested assets	1,094,941	0.142	1,094,941	0.142
10. Total invested assets	770,155,372	100.000	770,155,372	100.000

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

#### GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [X] No [ ]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [X] No [ ] N/A [ ]
- 1.3 State Regulating? Indiana
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [X]
- 2.2 If yes, date of change:  
If not previously filed, furnish herewith a certified copy of the instrument as amended. \_\_\_\_\_
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2004
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/1998
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 07/19/2001
- 3.4 By what department or departments? Indiana Department of Insurance
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes [ ] No [X]
- 4.12 renewals? Yes [ ] No [X]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [ ] No [X]
- 4.22 renewals? Yes [ ] No [X]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [X]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.
- | 1<br>Name of Entity | 2<br>NAIC Company Code | 3<br>State of Domicile |
|---------------------|------------------------|------------------------|
|                     |                        |                        |
|                     |                        |                        |
|                     |                        |                        |
- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action either formal or informal, if a confidentiality clause is part of the agreement.) Yes [ ] No [X]
- 6.2 If yes, give full information \_\_\_\_\_
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [X]
- 7.2 If yes,
- 7.21 State the percentage of foreign control 0 %
- 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).
- | 1<br>Nationality | 2<br>Type of Entity |
|------------------|---------------------|
|                  |                     |
|                  |                     |
|                  |                     |
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [ ] No [X]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company. \_\_\_\_\_
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ ] No [X]

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
 Ernst & Young, LLP  
 200 Clarendon Street, Boston MA 02116

10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification? William M. Finn, FCAS, MAAA  
 62 Maple Avenue, Keene, NH03431  
 Vice President & Chief Reserving Actuary of Liberty Mutual Agency Markets

11.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [ ] No [X]

11.11 Name of real estate holding company \_\_\_\_\_

11.12 Number of parcels involved \_\_\_\_\_

11.13 Total book/adjusted carrying value \$ \_\_\_\_\_

11.2 If yes, provide explanation \_\_\_\_\_

12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

12.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?  
 \_\_\_\_\_

12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [X]

12.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [X]

12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [X]

### BOARD OF DIRECTORS

13. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No [ ]

14. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No [ ]

15. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [X] No [ ]

### FINANCIAL

16.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

16.11 To directors or other officers \$ \_\_\_\_\_

16.12 To stockholders not officers \$ \_\_\_\_\_

16.13 Trustees, supreme or grand (Fraternal only) \$ \_\_\_\_\_

16.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

16.21 To directors or other officers \$ \_\_\_\_\_

16.22 To stockholders not officers \$ \_\_\_\_\_

16.23 Trustees, supreme or grand (Fraternal only) \$ \_\_\_\_\_

17.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [ ] No [X]

17.2 If yes, state the amount thereof at December 31 of the current year:

17.21 Rented from others \$ \_\_\_\_\_

17.22 Borrowed from others \$ \_\_\_\_\_

17.23 Leased from others \$ \_\_\_\_\_

17.24 Other \$ \_\_\_\_\_

18.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [ ] No [X]

18.2 If answer is yes:

18.21 Amount paid as losses or risk adjustment \$ \_\_\_\_\_

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

18.22 Amount paid as expenses \$ \_\_\_\_\_  
 18.23 Other amounts paid \$ \_\_\_\_\_

19.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [ ] No [ X ]  
 19.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ \_\_\_\_\_

#### INVESTMENT

20.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits? Yes [ X ] No [ ]

20.2 If no, give full and complete information, relating thereto \_\_\_\_\_  
 \_\_\_\_\_

21.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E - Part 3 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 17.1). Yes [ X ] No [ ]

21.2 If yes, state the amount thereof at December 31 of the current year:

21.21 Loaned to others	\$	84,387,211
21.22 Subject to repurchase agreements	\$	
21.23 Subject to reverse repurchase agreements	\$	
21.24 Subject to dollar repurchase agreements	\$	
21.25 Subject to reverse dollar repurchase agreements	\$	
21.26 Pledged as collateral	\$	
21.27 Placed under option agreements	\$	
21.28 Letter stock or securities restricted as to sale	\$	
21.29 Other	\$	

21.3 For category (21.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

22.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [ X ]  
 22.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ] N/A [ X ]  
 If no, attach a description with this statement.

23.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [ ] No [ X ]  
 23.2 If yes, state the amount thereof at December 31 of the current year. \$ \_\_\_\_\_

24. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H-Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook? Yes [ X ] No [ ]

24.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
JP MORGAN CHASE	3 Chase Metro Tech Center, Brooklyn, NY 11245

24.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

24.03 Have there been any changes, including name changes, in the custodian(s) identified in 24.01 during the current year? Yes [ ] No [ X ]  
 24.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

**GENERAL INTERROGATORIES**

**PART 1 - COMMON INTERROGATORIES**

24.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of brokers/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address

25.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes  No

25.2 If yes, complete the following schedule:

1 CUSIP#	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
42982#-10-0	LMIA High Yield Fund	44,333,733
25.2999	Total	44,333,733

25.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation
LMIA High Yield Fund	JP Morgan Prime Money Market Fund	2,079,252	12/31/2005
LMIA High Yield Fund	Ventas Realty LP/CAP CRP	829,041	12/31/2005
LMIA High Yield Fund	Pierre Foods Inc	620,672	12/31/2005
LMIA High Yield Fund	Valent Pharmaceuticals	607,372	12/31/2005
LMIA High Yield Fund	Superior Entergy Serv	563,038	12/31/2005

26. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
26.1 Bonds	639,429,199	634,528,847	(4,900,352)
26.2 Preferred stocks	3,115,160	3,076,000	(39,160)
26.3 Totals	642,544,359	637,604,847	(4,939,512)

26.4 Describe the sources or methods utilized in determining the fair values: IDC, Bloomberg, NAIC, SVO, Broker Quotes, Analytically Determined

27.1 Have all the filing requirements of the Purposes and Procedures manual of the NAIC Securities Valuation Office been followed? Yes  No

27.2 If no, list exceptions:

**OTHER**

28.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$ 1,264,980

28.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
INSURANCE SERVICES OFFICE INC	\$ 835,230
	\$
	\$

29.1 Amount of payments for legal expenses, if any? \$ 67,421

29.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
KENTUCKY STATE TREASURER	\$ 22,700
ONE BEACON INSURANCE	\$ 25,816

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

1 Name	2 Amount Paid
	\$

30.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$ \_\_\_\_\_

30.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
	\$
	\$
	\$
	\$

**GENERAL INTERROGATORIES**

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? YES [ ] NO [X]  
 1.2 If yes, indicate premium earned on U. S. business only. \$ \_\_\_\_\_  
 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$ \_\_\_\_\_  
 1.31 Reason for excluding \_\_\_\_\_

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. \$ \_\_\_\_\_  
 1.5 Indicate total incurred claims on all Medicare Supplement insurance. \$ \_\_\_\_\_

1.6 Individual policies:  
 Most current three years:  
 1.61 Total premium earned \$ \_\_\_\_\_  
 1.62 Total incurred claims \$ \_\_\_\_\_  
 1.63 Number of covered lives \$ \_\_\_\_\_  
 All years prior to most current three years:  
 1.64 Total premium earned \$ \_\_\_\_\_  
 1.65 Total incurred claims \$ \_\_\_\_\_  
 1.66 Number of covered lives \$ \_\_\_\_\_

1.7 Group policies:  
 Most current three years:  
 1.71 Total premium earned \$ \_\_\_\_\_  
 1.72 Total incurred claims \$ \_\_\_\_\_  
 1.73 Number of covered lives \$ \_\_\_\_\_  
 All years prior to most current three years:  
 1.74 Total premium earned \$ \_\_\_\_\_  
 1.75 Total incurred claims \$ \_\_\_\_\_  
 1.76 Number of covered lives \$ \_\_\_\_\_

2. Health Test:

	1	2
	Current Year	Prior Year
2.1 Premium Numerator	\$ _____	\$ _____
2.2 Premium Denominator	\$ 353,429,871	\$ 321,873,761
2.3 Premium Ratio (2.1/2.2)	_____	_____
2.4 Reserve Numerator	\$ 302	\$ 302
2.5 Reserve Denominator	\$ 493,967,655	\$ 427,386,521
2.6 Reserve Ratio (2.4/2.5)	_____	_____

3.1 Does the reporting entity issue both participating and non-participating policies? YES [X] NO [ ]  
 3.2 If yes, state the amount of calendar year premiums written on:  
 3.21 Participating policies \$ 2,824,113  
 3.22 Non-participating policies \$ 319,638,009

4. For Mutual Reporting Entities and Reciprocal Exchange only:  
 4.1 Does the reporting entity issue assessable policies? YES [ ] NO [X]  
 4.2 Does the reporting entity issue non-assessable policies? YES [ ] NO [X]  
 4.3 If assessable policies are issued, what is the extent of the contingent liability of the policyholders? \_\_\_\_\_ %  
 4.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums. \$ \_\_\_\_\_

5. For Reciprocal Exchanges Only:  
 5.1 Does the exchange appoint local agents? YES [ ] NO [X]  
 5.2 If yes, is the commission paid:  
 5.21 Out of Attorney's-in-fact compensation YES [ ] NO [ ] N/A [X]  
 5.22 As a direct expense of the exchange YES [ ] NO [ ] N/A [X]

5.3 What expenses of the Exchange are not paid out of the compensation of the Attorney-in-fact? \_\_\_\_\_  
 5.4 Has any Attorney-in-fact compensation, contingent on fulfillment of certain conditions, been deferred? YES [ ] NO [X]  
 5.5 If yes, give full information \_\_\_\_\_



## GENERAL INTERROGATORIES

(Continued)

### PART 2 - PROPERTY & CASUALTY INTERROGATORIES

- 6.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit of loss: In 2005 the Company purchased Workers' Compensation Catastrophe reinsurance, separately and/or with the Liberty Mutual Group with limits of \$675M xs \$25M.
- 6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process: The Company tracks aggregate property and WC exposure and reviews quarterly. It uses RiskLink from RMS and AIR from AIR for EQ and wind. It uses RiskLink for WC. Concentrations are in the NE for wind and New Madrid for EQ.
- 6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss? In 2005 the Company purchased Property Catastrophe reinsurance, separately and/or with the Liberty Mutual Group with limits of \$1,300m xs. \$50m. The coverage is sufficient to protect against the Company's 250 year event.
- 6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? YES  NO
- 6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to uninsured catastrophic loss
- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? YES  NO
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions.
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? YES  NO
- 8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? YES  NO
- 8.2 If yes, give full information
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 3% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 3% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
- (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
  - (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
  - (c) Aggregate stop loss reinsurance coverage;
  - (d) An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party;
  - (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
  - (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.
- YES  NO
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:
- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
  - (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.
- YES  NO
- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
- (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
  - (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
  - (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
  - (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?
- YES  NO
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.
10. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? YES  NO  N/A
- 11.1 Has the reporting entity guaranteed policies issued by any other entity and now in force? YES  NO
- 11.2 If yes, give full information

**GENERAL INTERROGATORIES**  
(Continued)

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

- 12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 13.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- |       |   |          |
|-------|---|----------|
| 12.11 | Unpaid losses   | \$ _____ |
| 12.12 | Unpaid underwriting expenses (including loss adjustment expenses) | \$ _____ |
- 12.2 Of the amount on Line 13.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? \$ \_\_\_\_\_
- 12.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium notes or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? YES [ ] NO [X] N/A [ ]
- 12.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
- |       |      |         |
|-------|------|---------|
| 12.41 | From | _____ % |
| 12.42 | To   | _____ % |
- 12.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium notes or promissory notes taken by a reporting entity, or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? YES [ ] NO [X]
- 12.6 If yes, state the amount thereof at December 31 of current year:
- |       |                            |          |
|-------|----------------------------|----------|
| 12.61 | Letters of Credit          | \$ _____ |
| 12.62 | Collateral and other funds | \$ _____ |
- 13.1 What amount of installment notes is owned and now held by the reporting entity? \$ \_\_\_\_\_
- 13.2 Have any of these notes been hypothecated, sold or used in any manner as security for money loaned within the past year? YES [ ] NO [X]
- 13.3 If yes, what amount? \$ \_\_\_\_\_
- 14.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ \_\_\_\_\_ 612,500
- 14.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? YES [ ] NO [X]
- 14.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. \_\_\_\_\_ 3
- 15.1 Is the company a cedant in a multiple cedant reinsurance contract? YES [X] NO [ ]
- 15.2 If yes, please describe the method of allocating and recording reinsurance among the cedants: \_\_\_\_\_  
 Premiums and recoverables were allocated pursuant to separate intercompany pooling agreements. \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
- 15.3 If the answer to 15.1 is yes, are the methods described in item 15.2 entirely contained in the respective multiple cedant reinsurance contracts? YES [ ] NO [X]
- 15.4 If the answer to 15.3 is no, are all the methods described in 15.2 entirely contained in written agreements? YES [X] NO [ ]
- 15.5 If the answer to 15.4 is no, please explain: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
- 16.1 Has the reporting entity guaranteed any financed premium accounts? YES [ ] NO [X]
- 16.2 If yes, give full information \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
- 17.1 Does the reporting entity write any warranty business? YES [ ] NO [X]  
 If yes, disclose the following information for each of the following types of warranty coverage:

	1	2	3	4	5
	Direct Losses Incurred	Direct Losses Unpaid	Direct Written Premium	Direct Premium Unearned	Direct Premium Earned
17.11 Home	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
17.12 Products	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
17.13 Automobile	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
17.14 Other*	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

\* Disclose type of coverage: \_\_\_\_\_

**GENERAL INTERROGATORIES**  
(Continued)

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

18.1 Does the reporting entity include amounts recoverable on unauthorized reinsurance in Schedule F - Part 3 that it excludes from Schedule F - Part 5. YES [ ] NO [X]

Incurred but not reported losses on contracts not in force on July 1, 1984 or subsequently renewed are exempt from inclusion in Schedule F - Part 5. Provide the following information for this exemption:

18.11	Gross amount of unauthorized reinsurance in Schedule F - Part 3 excluded from Schedule F - Part 5	\$ _____
18.12	Unfunded portion of Interrogatory 18.11	\$ _____
18.13	Paid losses and loss adjustment expenses portion of Interrogatory 18.11	\$ _____
18.14	Case reserves portion of Interrogatory 18.11	\$ _____
18.15	Incurred but not reported portion of Interrogatory 18.11	\$ _____
18.16	Unearned premium portion of Interrogatory 18.11	\$ _____
18.17	Contingent commission portion of Interrogatory 18.11	\$ _____

Provide the following information for all other amounts included in Schedule F - Part 3 and excluded from Schedule F - Part 5, not included above.

18.18	Gross amount of unauthorized reinsurance in Schedule F - Part 3 excluded from Schedule F - Part 5	\$ _____
18.19	Unfunded portion of Interrogatory 18.18	\$ _____
18.20	Paid losses and loss adjustment expenses portion of Interrogatory 18.18	\$ _____
18.21	Case reserves portion of Interrogatory 18.18	\$ _____
18.22	Incurred but not reported portion of Interrogatory 18.18	\$ _____
18.23	Unearned premium portion of Interrogatory 18.18	\$ _____
18.24	Contingent commission portion of Interrogatory 18.18	\$ _____

## FIVE-YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e., 17.6.

	1 2005	2 2004	3 2003	4 2002	5 2001
<b>Gross Premiums Written</b> (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	281,446,764	224,920,663	420,206,744	403,288,573	331,795,142
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	110,747,048	94,312,512	195,321,866	188,626,460	144,552,273
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	289,742,433	231,410,376	421,107,338	368,028,799	255,490,761
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	175,079	69,678	551,086	1,776,169	4,292,194
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)			(3,043)		1,381
6. Total (Line 34)	682,111,324	550,713,229	1,037,183,991	961,720,001	736,131,751
<b>Net Premiums Written</b> (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	147,601,173	76,734,250	258,774,105	225,797,296	178,865,653
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	57,120,133	28,101,589	119,820,902	106,065,972	82,277,161
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	154,758,194	78,588,666	249,484,599	194,414,779	131,700,272
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	169,702	63,009	544,671	1,767,443	4,283,294
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)			(3,043)		1,381
12. Total (Line 34)	359,649,202	183,487,514	628,621,234	528,045,490	397,127,761
<b>Statement of Income</b> (Page 4)					
13. Net underwriting gain (loss) (Line 8)	5,641,052	133,278	33,554,549	(46,606,765)	(28,722,803)
14. Net investment gain (loss) (Line 11)	32,852,645	46,811,677	31,191,083	37,170,750	26,471,056
15. Total other income (Line 15)	(96,314)	1,107,194	(2,221,596)	530,126	(3,088,015)
16. Dividends to policyholders (Line 17)	583,865	442,866	1,082,095	1,193,275	1,109,616
17. Federal and foreign income taxes incurred (Line 19)	11,947,049	(4,666,799)	20,589,639		(367,783)
18. Net income (Line 20)	25,866,469	52,276,082	40,852,302	(10,099,164)	(6,081,595)
<b>Balance Sheet Lines</b> (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	959,695,375	785,172,871	1,201,508,890	934,349,511	806,019,371
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	42,775,392	15,866,954	69,376,178	24,264,543	93,792,551
20.2 Deferred and not yet due (Line 13.2)	95,001,964	91,377,387	179,670,321	137,746,298	96,600,329
20.3 Accrued retrospective premiums (Line 13.3)			4,720,545		
21. Total liabilities excluding protected cell business (Page 3, Line 24)	607,241,327	465,161,080	931,671,667	715,365,207	578,138,939
22. Losses (Page 3, Lines 1 and 2)	259,056,039	210,808,710	363,411,762	329,258,646	299,153,390
23. Loss adjustment expenses (Page 3, Line 3)	62,032,517	50,541,044	75,838,424	76,181,047	54,957,103
24. Unearned premiums (Page 3, Line 9)	172,879,099	166,036,767	306,682,592	253,265,924	198,909,787
25. Capital paid up (Page 3, Lines 28 & 29)	5,850,000	5,850,000	5,850,000	5,850,000	5,850,000
26. Surplus as regards policyholders (Page 3, Line 35)	352,454,048	320,011,791	269,837,223	218,984,304	227,880,432
<b>Risk-Based Capital Analysis</b>					
27. Total adjusted capital	352,454,048	320,011,791	269,837,223	218,984,304	227,880,432
28. Authorized control level risk-based capital	33,902,454	37,182,967	49,058,846	40,942,162	29,254,784
<b>Percentage Distribution of Cash, Cash Equivalents and Invested Assets</b> (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
29. Bonds (Line 1)	76.8	73.6	75.3	74.1	91.2
30. Stocks (Lines 2.1 & 2.2)	13.4	15.8	9.6	14.7	10.5
31. Mortgage loans on real estate (Lines 3.1 and 3.2)					
32. Real estate (Lines 4.1, 4.2 & 4.3)	2.0	2.6	1.8	3.2	3.5
33. Cash, cash equivalents and short-term investments (Line 5)	7.6	7.6	12.7	8.1	(5.1)
34. Contract loans (Line 6)				XXX	XXX
35. Other invested assets (Line 7)	0.1	0.4	0.7		
36. Receivables for securities (Line 8)					
37. Aggregate write-ins for invested assets (Line 9)					
38. Cash, cash equivalents and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
39. Affiliated bonds, (Sch. D, Summary, Line 25, Col. 1)					
40. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)					
41. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 2)	55,773,959	52,962,643	50,913,514	49,562,669	45,901,005
42. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 11)					
43. Affiliated mortgage loans on real estate					
44. All other affiliated					
45. Total of above Lines 39 to 44	55,773,959	52,962,643	50,913,514	49,562,669	45,901,005
46. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 45 above divided by Page 3, Col. 1, Line 35 x 100.0)	15.8	16.6	18.9	22.6	20.1

## FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2005	2 2004	3 2003	4 2002	5 2001
<b>Capital and Surplus Accounts</b> (Page 4)					
47. Net unrealized capital gains (losses) (Line 24)	1,407,420	2,582,747	4,930,540	2,375,458	8,687,718
48. Dividends to stockholders (Line 35)	(851,000)	(850,998)	(851,000)	(851,000)	(1,124,800)
49. Change in surplus as regards policyholders for the year (Line 38)	32,442,257	50,174,568	50,852,919	(8,896,128)	27,768,098
<b>Gross Losses Paid</b> (Page 9, Part 2, Cols. 1 & 2)					
50. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	147,349,457	268,747,344	210,612,464	201,051,310	195,543,885
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	45,512,963	50,720,260	84,048,134	78,260,468	76,526,459
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	135,846,946	158,829,915	187,407,592	172,152,847	169,148,707
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	87,391	249,660	197,501	1,095,683	970,527
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)		872,584	201,088		153,194
55. Total (Line 34)	328,796,757	479,419,763	482,466,779	452,560,308	442,342,772
<b>Net Losses Paid</b> (Page 9, Part 2, Col. 4)					
56. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	64,650,834	179,811,187	115,588,278	110,034,625	98,966,404
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	23,284,695	24,455,965	50,524,627	45,220,908	44,984,136
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	55,681,831	94,089,463	91,217,623	74,603,810	79,080,171
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	87,908	251,785	199,198	1,097,657	971,597
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)		872,584	201,088		153,194
61. Total (Line 34)	143,705,268	299,480,984	257,730,814	230,957,000	224,155,502
<b>Operating Percentages</b> (Page 4) (Item divided by Page 4, Line 1) x 100.0					
62. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
63. Losses incurred (Line 2)	49.3	53.6	51.3	64.9	64.9
64. Loss expenses incurred (Line 3)	13.2	12.9	8.0	12.8	9.3
65. Other underwriting expenses incurred (Line 4)	35.9	33.8	34.7	32.1	33.9
66. Net underwriting gain (loss) (Line 8)	1.6		5.8	(9.8)	(8.1)
<b>Other Percentages</b>					
67. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 34 x 100.0)	35.3	58.2	32.3	28.8	31.0
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	62.5	66.5	59.3	77.7	74.2
69. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 34 divided by Page 3, Line 35, Col. 1 x 100.0)	102.0	57.3	233.0	241.1	174.3
<b>One Year Loss Development (000 omitted)</b>					
70. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)	(7,585)	2,899	(1,723)	23,002	11,825
71. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 70 above divided by Page 4, Line 21, Col. 1 x 100.0)	(2.4)	1.1	(0.8)	10.1	6.4
<b>Two Year Loss Development (000 omitted)</b>					
72. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2 - Summary, Line 12, Col. 12)	(2,119)	13,793	28,250	25,426	(2,465)
73. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 72 above divided by Page 4, Line 21, Col. 2 x 100.0)	(0.8)	6.3	12.9	12.7	(1.2)

**SCHEDULE D - SUMMARY BY COUNTRY**  
Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1	2	3	4
		Book/Adjusted Carrying Value	Fair Value	Actual Cost	Par Value of Bonds
<b>BONDS</b> Governments (Including all obligations guaranteed by governments)	1. United States	146,944,933	144,684,427	147,336,310	145,150,885
	2. Canada				
	3. Other Countries				
	4. Totals	146,944,933	144,684,427	147,336,310	145,150,885
States, Territories and Possessions (Direct and guaranteed)	5. United States	54,309,407	54,440,681	54,304,418	54,580,000
	6. Canada				
	7. Other Countries				
	8. Totals	54,309,407	54,440,681	54,304,418	54,580,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States	51,698,779	52,092,594	51,695,885	52,030,000
	10. Canada				
	11. Other Countries				
	12. Totals	51,698,779	52,092,594	51,695,885	52,030,000
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States	193,665,073	190,418,862	193,794,681	193,951,188
	14. Canada				
	15. Other Countries				
	16. Totals	193,665,073	190,418,862	193,794,681	193,951,188
Public Utilities (unaffiliated)	17. United States	23,006,191	22,595,450	23,013,415	23,000,000
	18. Canada				
	19. Other Countries				
	20. Totals	23,006,191	22,595,450	23,013,415	23,000,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States	116,287,605	116,619,087	116,893,221	136,108,496
	22. Canada	2,983,803	2,931,900	2,980,350	3,000,000
	23. Other Countries	2,904,842	3,117,400	2,777,080	3,000,000
	24. Totals	122,176,250	122,668,387	122,650,651	142,108,496
Parent, Subsidiaries and Affiliates	25. Totals				
	<b>26. Total Bonds</b>	<b>591,800,633</b>	<b>586,900,401</b>	<b>592,795,360</b>	<b>610,820,569</b>
<b>PREFERRED STOCKS</b> Public Utilities (unaffiliated)	27. United States				
	28. Canada				
	29. Other Countries				
	30. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	31. United States				
	32. Canada				
	33. Other Countries				
	34. Totals				
Industrial and Miscellaneous (unaffiliated)	35. United States	3,115,160	3,076,000	3,115,160	
	36. Canada				
	37. Other Countries				
	38. Totals	3,115,160	3,076,000	3,115,160	
Parent, Subsidiaries and Affiliates	39. Totals				
	<b>40. Total Preferred Stocks</b>	<b>3,115,160</b>	<b>3,076,000</b>	<b>3,115,160</b>	
<b>COMMON STOCKS</b> Public Utilities (unaffiliated)	41. United States				
	42. Canada				
	43. Other Countries				
	44. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	45. United States				
	46. Canada				
	47. Other Countries				
	48. Totals				
Industrial and Miscellaneous (unaffiliated)	49. United States	44,333,733	44,333,733	43,602,402	
	50. Canada				
	51. Other Countries				
	52. Totals	44,333,733	44,333,733	43,602,402	
Parent, Subsidiaries and Affiliates	53. Totals	55,773,959	55,773,959	5,653,528	
	<b>54. Total Common Stocks</b>	<b>100,107,692</b>	<b>100,107,692</b>	<b>49,255,930</b>	
	55. Total Stocks	103,222,852	103,183,692	52,371,090	
	56. Total Bonds and Stocks	695,023,485	690,084,093	645,166,450	

**SCHEDULE D - VERIFICATION BETWEEN YEARS**  
Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year	<u>557,121,229</u>	7. Amortization of premium	<u>1,181,657</u>
2. Cost of bonds and stocks acquired, Column 7, Part 3	<u>326,149,681</u>	8. Foreign Exchange Adjustment:	
3. Accrual of discount	<u>433,683</u>	8.1 Column 15, Part 1	<u>                    </u>
4. Increase (decrease) by adjustment:		8.2 Column 19, Part 2 Section 1	<u>                    </u>
4.1 Columns 12 - 14, Part 1	<u>(139,996)</u>	8.3 Column 16, Part 2, Section 2	<u>                    </u>
4.2 Column 15 - 17, Part 2, Section 1	<u>                    </u>	8.4 Column 15, Part 4	<u>                    </u>
4.3 Column 15, Part 2, Section 2	<u>1,396,931</u>	9. Book/adjusted carrying value at end of current period	<u>695,023,486</u>
4.4 Column 11 - 13, Part 4	<u>1,256,935</u>	10. Total valuation allowance	<u>                    </u>
5. Total gain (loss), Column 19, Part 4	<u>3,908,807</u>	11. Subtotal (Lines 9 plus 10)	<u>695,023,486</u>
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4	<u>192,665,192</u>	12. Total nonadmitted amounts	<u>                    </u>
		13. Statement value of bonds and stocks, current period	<u>695,023,486</u>

**SCHEDULE P-ANALYSIS OF LOSSES AND LOSS EXPENSES**

**SCHEDULE P-PART 1-SUMMARY**

(\$000 omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								12 Number of Claims Reported - Direct and Assumed
	1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10 Salvage and Subrogation Received	11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
				4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded			
1. Prior	X X X	X X X	X X X	2,537	144	354	3	109	11	43	2,842	X X X
2. 1996	185,961	22,265	163,696	122,020	13,745	10,249	805	11,794	732	4,845	128,781	X X X
3. 1997	211,765	35,819	175,946	132,999	24,492	11,192	1,703	15,419	2,493	5,657	130,922	X X X
4. 1998	245,971	47,948	198,023	158,660	42,794	12,481	2,683	20,216	5,148	5,874	140,732	X X X
5. 1999	227,889	35,646	192,243	155,092	30,195	11,501	1,823	19,403	3,812	5,639	150,166	X X X
6. 2000	217,309	28,024	189,285	147,559	24,754	11,034	996	17,252	2,211	5,171	147,884	X X X
7. 2001	232,727	31,982	200,745	137,715	22,656	10,517	641	16,465	2,360	4,821	139,040	X X X
8. 2002	306,724	72,130	234,594	153,899	32,389	9,723	1,832	13,710	3,597	4,719	139,514	X X X
9. 2003	346,592	58,012	288,580	136,579	21,512	7,826	980	22,027	4,014	4,788	139,926	X X X
10. 2004	351,289	29,415	321,874	108,395	4,102	3,407	75	18,124	828	4,829	124,921	X X X
11. 2005	371,436	18,006	353,430	71,087	1,238	1,471		16,366	268	2,433	87,418	X X X
12. Totals	X X X	X X X	X X X	1,326,542	218,021	89,755	11,541	170,885	25,474	48,819	1,332,146	X X X

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding Direct and Assumed
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21 Direct and Assumed	22 Ceded			
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded					
1. Prior	6,325	290	1,293	97		420	45	242	36	4	7,812	X X X	
2. 1996	903	106	467	275		186	9	93	14	10	1,245	X X X	
3. 1997	2,321	802	640	502		375	57	124	17	15	2,082	X X X	
4. 1998	5,386	3,604	2,583	2,076		640	166	174	22	29	2,915	X X X	
5. 1999	5,275	3,741	2,644	2,103		776	156	282	34	78	2,943	X X X	
6. 2000	6,110	3,117	2,466	2,017		1,128	145	423	51	152	4,797	X X X	
7. 2001	7,880	2,994	3,508	2,123		1,659	169	671	74	419	8,358	X X X	
8. 2002	15,762	3,286	8,989	4,782		4,189	408	1,163	121	905	21,506	X X X	
9. 2003	18,317	4,598	11,000	4,444		5,767	484	2,287	205	1,297	27,640	X X X	
10. 2004	39,357	2,904	35,033	6,607		13,546	977	3,747	390	2,281	80,805	X X X	
11. 2005	56,692	1,988	64,838	3,858		17,495	79	11,108	805	3,500	143,403	X X X	
12. Totals	164,328	27,430	133,461	28,884		46,181	2,695	20,314	1,769	8,690	303,506	X X X	

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred / Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1. Prior	X X X	X X X	X X X	X X X	X X X	X X X			X X X	7,231	581
2. 1996	145,712	15,686	130,026	78.356	70.451	79.431			12.250	989	256
3. 1997	163,070	30,066	133,004	77.005	83.939	75.594			12.250	1,657	425
4. 1998	200,140	56,493	143,647	81.367	117.821	72.541			12.250	2,289	626
5. 1999	194,973	41,864	153,109	85.556	117.444	79.643			12.250	2,075	868
6. 2000	185,972	33,291	152,681	85.580	118.795	80.662			12.250	3,442	1,355
7. 2001	178,415	31,017	147,398	76.663	96.983	73.425			12.250	6,271	2,087
8. 2002	207,435	46,415	161,020	67.629	64.349	68.638			12.250	16,683	4,823
9. 2003	203,803	36,237	167,566	58.802	62.465	58.066			12.250	20,275	7,365
10. 2004	221,609	15,883	205,726	63.085	53.996	63.915			12.250	64,879	15,926
11. 2005	239,057	8,236	230,821	64.360	45.740	65.309			12.250	115,684	27,719
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	241,475	62,031

Note: Parts 2 and 4 are gross of all discounting, including tabular discounting. Part 1 is gross of only nontabular discounting, which is reported in Columns 32 and 33 of Part 1. The tabular discount, if any, is reported in the Notes to Financial Statements which will reconcile Part 1 with Parts 2 and 4.

**SCHEDULE P-PART 2-SUMMARY**

Years in Which Losses Were Incurred	Incurred Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										DEVELOPMENT	
	1	2	3	4	5	6	7	8	9	10	11	12
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	One Year	Two Year
1. Prior	78,774	77,291	79,138	80,240	79,681	76,092	80,810	80,721	79,989	79,781	(208)	(940)
2. 1996	120,862	119,270	119,515	119,000	119,271	119,500	119,987	119,742	118,885	118,959	74	(783)
3. 1997	X X X	115,167	118,898	118,965	118,916	118,915	119,119	119,486	119,785	120,035	250	549
4. 1998	X X X	X X X	126,762	126,594	126,579	126,791	126,383	127,049	128,559	128,453	(106)	1,404
5. 1999	X X X	X X X	X X X	127,083	130,020	131,838	133,704	135,322	136,714	137,342	628	2,020
6. 2000	X X X	X X X	X X X	X X X	126,170	131,891	134,345	136,982	136,870	137,538	668	556
7. 2001	X X X	X X X	X X X	X X X	X X X	131,831	129,060	131,442	133,769	132,776	(993)	1,334
8. 2002	X X X	X X X	X X X	X X X	X X X	X X X	151,730	153,567	152,485	150,856	(1,629)	(2,711)
9. 2003	X X X	X X X	X X X	X X X	X X X	X X X	X X X	151,180	149,258	147,632	(1,626)	(3,548)
10. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	189,932	185,289	(4,643)	X X X
11. 2005	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	204,468	X X X	X X X
12. Totals											(7,585)	(2,119)

**SCHEDULE P-PART 3-SUMMARY**

Years in Which Losses Were Incurred	Cumulative Paid Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										11	12
	1	2	3	4	5	6	7	8	9	10	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005		
1. Prior	000	4,318	43,701	53,415	58,933	62,890	66,045	67,616	68,575	71,319	X X X	X X X
2. 1996	64,095	89,840	100,703	108,886	113,203	116,277	117,436	117,794	117,504	117,719	X X X	X X X
3. 1997	X X X	57,530	85,975	99,520	108,025	113,010	115,424	116,856	117,837	117,996	X X X	X X X
4. 1998	X X X	X X X	61,480	92,331	107,149	115,090	119,928	122,715	124,740	125,664	X X X	X X X
5. 1999	X X X	X X X	X X X	64,596	97,334	112,774	122,884	128,156	132,563	134,575	X X X	X X X
6. 2000	X X X	X X X	X X X	X X X	64,115	99,040	114,879	124,223	129,638	132,843	X X X	X X X
7. 2001	X X X	X X X	X X X	X X X	X X X	65,263	97,780	111,274	121,220	124,935	X X X	X X X
8. 2002	X X X	X X X	X X X	X X X	X X X	X X X	61,377	97,517	115,479	129,401	X X X	X X X
9. 2003	X X X	X X X	X X X	X X X	X X X	X X X	X X X	70,463	104,930	121,913	X X X	X X X
10. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	67,106	107,625	X X X	X X X
11. 2005	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	71,320	X X X	X X X

**SCHEDULE P-PART 4-SUMMARY**

Years in Which Losses Were Incurred	Bulk and IBNR Reserves On Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)									
	1	2	3	4	5	6	7	8	9	10
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1. Prior	22,293	14,580	10,769	7,473	5,669	3,629	5,325	8,896	4,487	1,571
2. 1996	27,793	11,564	6,645	2,486	1,683	678	682	734	336	369
3. 1997	X X X	26,548	13,362	6,084	3,588	1,648	985	927	694	456
4. 1998	X X X	X X X	30,849	11,861	7,467	4,626	2,116	1,549	1,844	981
5. 1999	X X X	X X X	X X X	25,735	11,430	6,680	3,556	2,101	2,575	1,161
6. 2000	X X X	X X X	X X X	X X X	23,477	13,060	7,633	4,768	3,838	1,432
7. 2001	X X X	X X X	X X X	X X X	X X X	26,696	13,880	6,578	7,017	2,875
8. 2002	X X X	X X X	X X X	X X X	X X X	X X X	53,558	27,492	11,269	7,988
9. 2003	X X X	X X X	X X X	X X X	X X X	X X X	X X X	35,374	17,403	11,839
10. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	67,263	40,995
11. 2005	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	78,396



**SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN**  
**Allocated by States and Territories**

States, Etc.	1 Is Insurer Licensed? (Yes or No)	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
		2 Direct Premiums Written	3 Direct Premiums Earned						
1. Alabama	AL	NO							
2. Alaska	AK	NO							
3. Arizona	AZ	NO							
4. Arkansas	AR	NO							
5. California	CA	NO							
6. Colorado	CO	NO							
7. Connecticut	CT	NO	(260)	(25)				(1)	
8. Delaware	DE	NO							
9. Dist. Columbia	DC	NO							
10. Florida	FL	YES			109	(857)	2,916		
11. Georgia	GA	NO	972	1,243				4	
12. Hawaii	HI	NO							
13. Idaho	ID	NO							
14. Illinois	IL	YES	59,614,292	64,678,470	39,305,086	31,433,991	71,133,227	271,489	
15. Indiana	IN	YES	158,094,911	168,373,904	25,952	90,535,563	84,673,742	111,871,587	719,978
16. Iowa	IA	YES	(44,882)	2,048,825	1,703,108	1,031,773	2,126,342	(204)	
17. Kansas	KS	NO							
18. Kentucky	KY	YES	47,642,104	52,624,122	28,251,293	21,675,672	28,852,327	216,966	
19. Louisiana	LA	NO	2,634	2,634				12	
20. Maine	ME	NO							
21. Maryland	MD	NO							
22. Massachusetts	MA	NO			597	5,499	4,902		
23. Michigan	MI	YES	11,961,601	12,424,022	53,213	4,557,451	9,295,897	17,825,405	54,474
24. Minnesota	MN	YES	37,501	54,968		522,947	(193,130)	529,853	171
25. Mississippi	MS	NO							
26. Missouri	MO	NO	699	737					3
27. Montana	MT	NO							
28. Nebraska	NE	NO	1,501	880					7
29. Nevada	NV	NO							
30. New Hampshire	NH	NO							
31. New Jersey	NJ	YES	6,809,676	4,672,288	49,409	751,326	2,354,512	2,702,543	31,012
32. New Mexico	NM	NO							
33. New York	NY	NO		1					
34. No. Carolina	NC	NO	6	6					
35. No. Dakota	ND	NO							
36. Ohio	OH	YES	4,491,361	4,164,813		2,120,200	801,093	6,722,022	20,454
37. Oklahoma	OK	NO							
38. Oregon	OR	NO							
39. Pennsylvania	PA	NO	4	4					
40. Rhode Island	RI	NO							
41. So. Carolina	SC	NO	18	18					
42. So. Dakota	SD	NO							
43. Tennessee	TN	YES	33,118,667	34,765,037		14,606,899	12,183,017	26,425,398	150,825
44. Texas	TX	NO						(14,472)	
45. Utah	UT	NO							
46. Vermont	VT	NO							
47. Virginia	VA	NO			12,797				
48. Washington	WA	YES	5,288	7,331		30,000	5,620	1,445,536	24
49. West Virginia	WV	NO							
50. Wisconsin	WI	YES	726,029	1,111,977	774,016	2,706,910	(2,305,828)	4,228,340	3,306
51. Wyoming	WY	NO							
52. American Samoa	AS	NO							
53. Guam	GU	NO							
54. Puerto Rico	PR	NO							
55. U.S. Virgin Islands	VI	NO							
56. Canada	CN	NO							
57. Aggregate other alien	OT	XXX							
58. Totals	(a) 12		322,462,122	341,638,456	915,387	185,091,489	160,961,001	273,855,926	1,468,520

DETAILS OF WRITE-INS									
5701.	XXX								
5702.	XXX								
5703.	XXX								
5798. Summary of remaining write-ins for Line 57 from overflow page	XXX								
5799. Totals (Lines 5701 through 5703 + 5798) (Line 57 above)	XXX								

**Explanation of basis of allocation of premiums by states, etc.**

- \*Location of coverage - Fire, Allied Lines, Homeowners Multi Peril, Commercial Multi Peril, Earthquake, Boiler and Machinery
- \*States of Jurisdiction under which payrolls and resulting premiums are developed - Worker's Compensation
- \*Location of Principal place of garaging of each individual car - Auto Liability, Auto Physical Damage
- \*Principal Location of business or location of coverage - Liability other than Auto, Fidelity
- \*Point of origin of shipment or principal location of assured - Inland Marine
- \*State in which employees regularly work - Group Accident and Health
- \*Location of Court - Surety
- \*Address of Assured - Other Accident and Health
- \*Location of Properties covered - Burglary and Theft
- \*Principal Location of Assured - Ocean Marine, Credit
- \*Primary residence of Assured - Aircraft (all perils)

(a) Insert the number of yes responses except for Canada and Other Alien.

