

ANNUAL STATEMENT

OF THE

Golden Eagle Insurance Corporation

of

in the state of **San Diego**

TO THE

Insurance Department

OF THE

STATE OF California

FOR THE YEAR ENDED

December 31, 2006

PROPERTY AND CASUALTY

2006



10836200620100100

ANNUAL STATEMENT
For the Year Ended December 31, 2006
 OF THE CONDITION AND AFFAIRS OF THE
Golden Eagle Insurance Corporation

NAIC Group Code 0111 0111 NAIC Company Code 10836 Employer's ID Number 33-0763205
 (Current Period) (Prior Period)

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

Country of Domicile United States of America

Incorporated/Organized: July 9, 1997 Commenced Business: August 22, 1997

Statutory Home Office: 525 B Street San Diego, CA 92101

Main Administrative Office: 525 B Street San Diego, CA 92101 619-744-6000

Mail Address: 525 B Street San Diego, CA 92101

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

Internet Website Address: www.LibertyMutualAgencyMarkets.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: 525 B Street San Diego, CA 92101 619-744-6600

OFFICERS
Chairman of the Board
 Gary Richard Gregg

	Name	Title
1.	<u>Gary Richard Gregg</u>	<u>President and Chief Executive Officer</u>
2.	<u>Edmund Campion Kenealy</u>	<u>Secretary</u>
3.	<u>James Francis Dore</u>	<u>Treasurer and Chief Financial Officer</u>

Vice-Presidents

Name	Title	Name	Title
<u>Anthony Alexander Fontanes</u>	<u>EVP and Chief Investment Officer</u>	<u>Joseph Anthony Gilles</u>	<u>Executive Vice President</u>
<u>Scott Rhodes Goodby</u>	<u>EVP and Chief Operating Officer</u>		

DIRECTORS OR TRUSTEES

<u>James Francis Dore</u>	<u>John Derek Doyle</u>	<u>Joseph Anthony Gilles</u>	<u>Scott Rhodes Goodby</u>
<u>Gary Richard Gregg</u>	<u>Christopher Charles Mansfield</u>		

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.

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

Subscribed and sworn to before me this
31st day of January, 2007

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)	705,562,566		705,562,566	571,888,339
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks	101,538,550		101,538,550	95,476,230
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)				
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ 20,343,431, Schedule E-Part 1), cash equivalents (\$ 19,238,963 Schedule E-Part 2) and short-term investments (\$ 35,964,793, Schedule DA)	75,547,187		75,547,187	38,459,989
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)				
8. Receivables for securities	5,102,440		5,102,440	971,360
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	887,750,743		887,750,743	706,795,918
11. Title plants less \$ 0 charged off (for Title insurers only)				
12. Investment income due and accrued	7,219,581		7,219,581	6,094,645
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	32,681,958	671,289	32,010,669	46,267,263
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 4,294,747 earned but unbilled premiums)	140,431,604	413,109	140,018,495	102,757,225
13.3 Accrued retrospective premiums	1,691,348	169,135	1,522,213	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	46,342		46,342	4,451,680
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	39,678,000	16,465,178	23,212,822	24,537,787
17. Guaranty funds receivable or on deposit	729,912		729,912	706,033
18. Electronic data processing equipment and software	60,985	2,920	58,065	36,397
19. Furniture and equipment, including health care delivery assets (\$ 0)	570,750	570,750		
20. Net adjustment in assets and liabilities due to foreign exchange rates				
21. Receivables from parent, subsidiaries and affiliates	25,210		25,210	
22. Health care (\$ 0) and other amounts receivable				
23. Aggregate write-ins for other than invested assets	2,854,318	349,913	2,504,405	2,451,611
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	1,113,740,751	18,642,294	1,095,098,457	894,098,559
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	1,113,740,751	18,642,294	1,095,098,457	894,098,559

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	1,116,795	349,913	766,882	1,069,034
2302. Equities and deposits in pools and associations	1,737,523		1,737,523	1,382,577
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	2,854,318	349,913	2,504,405	2,451,611

LIABILITIES, SURPLUS AND OTHER FUNDS	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	388,852,348	261,185,658
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	19,974,129	19,017,813
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	89,221,011	67,096,397
4. Commissions payable, contingent commissions and other similar charges	14,314,137	16,502,487
5. Other expenses (excluding taxes, licenses and fees)	11,066,757	6,610,991
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	7,602,125	4,412,680
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))	5,344,642	5,194,282
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 \$ 43,389,432 and including warranty reserves of \$ 0)	209,492,751	186,991,678
10. Advance premium	843,287	564,325
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders	196,456	
12. Ceded reinsurance premiums payable (net of ceding commissions)		4,528,222
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		256,828
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	7,221	
19. Payable to parent, subsidiaries and affiliates	6,854,320	3,021,059
20. Payable for securities	11,477,163	2,503,438
21. Liability for amounts held under uninsured plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	50,362,706	28,958,619
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	815,609,053	606,844,477
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	815,609,053	606,844,477
27. Aggregate write-ins for special surplus funds		
28. Common capital stock	2,600,000	2,600,000
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes		
32. Gross paid in and contributed surplus	221,633,333	221,633,333
33. Unassigned funds (surplus)	55,256,071	63,020,749
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)	279,489,404	287,254,082
36. TOTALS (Page 2, Line 26, Col. 3)	1,095,098,457	894,098,559

DETAILS OF WRITE-INS		
2301. Other liabilities	4,017,936	701,756
2302. Collateral held for securities loaned	46,344,770	28,256,863
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page		
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	50,362,706	28,958,619
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)		

STATEMENT OF INCOME	1	2
	Current Year	Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 34, Column 4)	454,104,658	382,281,290
DEDUCTIONS		
2. Losses incurred (Part 2, Line 34, Column 7)	246,504,570	188,604,386
3. Loss expenses incurred (Part 3, Line 25, Column 1)	54,251,918	50,297,779
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	151,965,125	137,277,577
5. Aggregate write-ins for underwriting deductions		
6. Total underwriting deductions (Lines 2 through 5)	452,721,613	376,179,742
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	1,383,045	6,101,548
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	39,025,598	31,252,827
10. Net realized capital gains (losses) less capital gains tax of \$ (312,572) (Exhibit of Capital Gains (Losses))	(582,940)	2,173,139
11. Net investment gain (loss) (Lines 9 + 10)	38,442,658	33,425,966
OTHER INCOME		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ (5) amount charged off \$ 677,936)	(677,941)	(501,138)
13. Finance and service charges not included in premiums	631,374	637,667
14. Aggregate write-ins for miscellaneous income	725,436	(691,593)
15. Total other income (Lines 12 through 14)	678,869	(555,064)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	40,504,572	38,972,450
17. Dividends to policyholders	1,283,655	631,528
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)	39,220,917	38,340,922
19. Federal and foreign income taxes incurred	21,631,757	23,248,363
20. Net income (Line 18 minus Line 19) (to Line 22)	17,589,160	15,092,559
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	287,254,083	263,887,248
22. Net income (from Line 20)	17,589,160	15,092,559
23. Net transfers (to) from Protected Cell accounts		
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ 146,566	2,922,042	347,430
25. Change in net unrealized foreign exchange capital gain (loss)		
26. Change in net deferred income tax	9,051,566	2,967,073
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	(8,929,140)	4,726,072
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)		
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	(28,725,000)	
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	326,693	233,701
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	(7,764,679)	23,366,835
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)	279,489,404	287,254,083

DETAILS OF WRITE-INS		
0501.		
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)		
1401. Other income/(expense)	725,436	(691,593)
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)	725,436	(691,593)
3701. Other changes in surplus	326,693	233,701
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)	326,693	233,701

CASH FLOW

	1	2
	Current Year	Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance	448,490,927	361,148,787
2. Net investment income	37,845,174	30,198,581
3. Miscellaneous income	173,198	(1,114,858)
4. Total (Lines 1 through 3)	486,509,299	390,232,510
5. Benefit and loss related payments	113,469,004	141,074,449
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	178,635,570	167,929,071
8. Dividends paid to policyholders	1,087,199	631,527
9. Federal and foreign income taxes paid (recovered) \$ 0 net of tax on capital gains (losses)	21,168,825	11,757,601
10. Total (Lines 5 through 9)	314,360,598	321,392,648
11. Net cash from operations (Line 4 minus Line 10)	172,148,701	68,839,862
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	102,067,628	151,309,790
12.2 Stocks		
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets		2,159,920
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(6,851)	(13,352)
12.7 Miscellaneous proceeds	4,842,646	1,542,829
12.8 Total investment proceeds (Lines 12.1 to 12.7)	106,903,423	154,999,187
13. Cost of investments acquired (long-term only):		
13.1 Bonds	236,514,583	269,293,125
13.2 Stocks	3,051,708	2,817,522
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets		
13.6 Miscellaneous applications		
13.7 Total investments acquired (Lines 13.1 to 13.6)	239,566,291	272,110,647
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)	(132,662,868)	(117,111,460)
Cash from Financing and Miscellaneous Sources		
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	28,725,000	
16.6 Other cash provided (applied)	26,326,365	62,878,736
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(2,398,635)	62,878,736
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	37,087,198	14,607,138
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	38,459,989	23,852,851
19.2 End of year (Line 18 plus Line 19.1)	75,547,187	38,459,989

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	4,626,152	2,212,089	2,350,805	4,487,436
2. Allied lines	3,969,425	1,959,286	2,028,443	3,900,268
3. Farmowners multiple peril	4,606,014	1,534,156	2,145,095	3,995,075
4. Homeowners multiple peril	36,142,529	17,075,750	18,929,819	34,288,460
5. Commercial multiple peril	148,778,798	62,666,653	69,388,993	142,056,458
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine	13,992,411	5,231,825	6,157,450	13,066,786
10. Financial guaranty				
11.1 Medical malpractice - occurrence				
11.2 Medical malpractice - claims-made				
12. Earthquake	1,700,332	686,568	866,174	1,520,726
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health				
16. Workers' compensation	91,891,181	20,752,150	25,647,585	86,995,746
17.1 Other liability - occurrence	27,343,566	10,303,524	12,298,659	25,348,431
17.2 Other liability - claims-made				
18.1 Products liability - occurrence	783,219	222,888	315,555	690,552
18.2 Products liability - claims-made				
19.1, 19.2 Private passenger auto liability	33,974,556	14,587,125	15,213,185	33,348,496
19.3, 19.4 Commercial auto liability	63,222,989	26,208,094	29,312,317	60,118,766
21. Auto physical damage	43,942,939	19,294,296	20,289,628	42,947,607
22. Aircraft (all perils)				
23. Fidelity	11,053	23,039	21,869	12,223
24. Surety	1,140,497	160,842	138,434	1,162,905
26. Burglary and theft	61,801	24,841	26,719	59,923
27. Boiler and machinery	105,419	66,655	67,274	104,800
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	476,292,881	183,009,781	205,198,004	454,104,658

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**

Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (a)	2 Amount Unearned (Running More Than One Year from Date of Policy) (a)	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	2,350,805				2,350,805
2. Allied lines	2,028,443				2,028,443
3. Farmowners multiple peril	2,144,426	669			2,145,095
4. Homeowners multiple peril	18,929,819				18,929,819
5. Commercial multiple peril	71,011,131	13,830	(1,635,968)		69,388,993
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	6,155,694	1,756			6,157,450
10. Financial guaranty					
11.1 Medical malpractice - occurrence					
11.2 Medical malpractice - claims-made					
12. Earthquake	866,174				866,174
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	27,621,797		(1,974,213)		25,647,584
17.1 Other liability - occurrence	12,976,619	6,606	(684,566)		12,298,659
17.2 Other liability - claims-made					
18.1 Products liability - occurrence	315,555				315,555
18.2 Products liability - claims-made					
19.1, 19.2 Private passenger auto liability	15,213,185				15,213,185
19.3, 19.4 Commercial auto liability	29,304,096	8,221			29,312,317
21. Auto physical damage	20,287,424	2,205			20,289,629
22. Aircraft (all perils)					
23. Fidelity	10,777	11,092			21,869
24. Surety	113,588	24,845			138,433
26. Burglary and theft	26,678	41			26,719
27. Boiler and machinery	67,055	219			67,274
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	209,423,266	69,484	(4,294,747)		205,198,003
35. Accrued retrospective premiums based on experience					
36. Earned but unbilled premiums					4,294,747
37. Balance (Sum of Line 34 through 36)					209,492,750

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) State here basis of computation used in each case N/A

**UNDERWRITING AND INVESTMENT EXHIBIT
PART 1B - PREMIUMS WRITTEN**

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	273,177	4,626,152		273,177		4,626,152
2. Allied lines	242,361	3,969,425		242,361		3,969,425
3. Farmowners multiple peril		4,606,014				4,606,014
4. Homeowners multiple peril		36,142,529				36,142,529
5. Commercial multiple peril	52,664,010	148,778,798		52,664,010		148,778,798
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	307,188	13,992,411		307,188		13,992,411
10. Financial guaranty						
11.1 Medical malpractice - occurrence						
11.2 Medical malpractice - claims-made						
12. Earthquake	651,783	1,700,332		651,783		1,700,332
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	322	91,891,181		322		91,891,181
17.1 Other liability - occurrence	20,554,792	27,343,566		20,554,792		27,343,566
17.2 Other liability - claims-made						
18.1 Products liability - occurrence	7,776	783,219		7,776		783,219
18.2 Products liability - claims-made						
19.1, 19.2 Private passenger auto liability		33,974,556				33,974,556
19.3, 19.4 Commercial auto liability	5,055,599	63,222,989		5,055,599		63,222,989
21. Auto physical damage	1,657,272	43,942,939		1,657,272		43,942,939
22. Aircraft (all perils)						
23. Fidelity		11,053				11,053
24. Surety		1,140,497				1,140,497
26. Burglary and theft	598	61,801		598		61,801
27. Boiler and machinery	18,606	105,419		18,606		105,419
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	81,433,484	476,292,881		81,433,484		476,292,881

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	275,364	1,294,881	275,364	1,294,881	910,556	437,648	1,767,789	39.394
2. Allied lines	14,996	2,284,960	14,996	2,284,960	505,045	1,414,845	1,375,160	35.258
3. Farmowners multiple peril		1,528,570		1,528,570	954,958	663,669	1,819,859	45.553
4. Homeowners multiple peril	125,139	20,159,631	125,139	20,159,631	8,139,154	6,926,976	21,371,809	62.329
5. Commercial multiple peril	12,494,968	52,246,896	12,494,968	52,246,896	100,466,068	83,581,232	69,131,732	48.665
6. Mortgage guaranty								
8. Ocean marine		34,074		34,074	2,702	(707,193)	743,969	
9. Inland marine	5,286	3,868,013	5,286	3,868,013	1,477,943	1,170,785	4,175,171	31.953
10. Financial guaranty								
11.1 Medical malpractice - occurrence								
11.2 Medical malpractice - claims - made								
12. Earthquake		(644)		(644)	762	13	105	0.007
13. Group accident and health								
14. Credit accident and health (group and individual)								
15. Other accident and health								
16. Workers' compensation	26,290,355	(27,106,252)	30,705,430	(31,521,327)	155,357,068	63,920,200	59,915,541	68.872
17.1 Other liability - occurrence	6,920,675	3,941,793	6,920,675	3,941,793	30,255,259	20,566,907	13,630,145	53.771
17.2 Other liability - claims - made								
18.1 Products liability - occurrence		(39,861)		(39,861)	685,959	(179,064)	825,162	119.493
18.2 Products liability - claims - made								
19.1, 19.2 Private passenger auto liability		21,747,017		21,747,017	32,057,562	31,586,176	22,218,403	66.625
19.3, 19.4 Commercial auto liability	1,431,356	23,163,652	1,431,356	23,163,652	55,774,759	48,468,521	30,469,890	50.683
21. Auto physical damage	525,681	19,930,542	525,681	19,930,542	1,144,987	1,317,015	19,758,514	46.006
22. Aircraft (all perils)								
23. Fidelity		(1,710)		(1,710)	29,750	3,749	24,291	198.732
24. Surety	71,234	266,854	71,234	266,854	332,960	474,411	125,403	10.784
26. Burglary and theft		3,916		3,916	3,225	(7,116)	14,257	23.792
27. Boiler and machinery	6,876	46	6,876	46	21,242	802,406	(781,118)	(745.342)
28. Credit								
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X							
31. Reinsurance-Nonproportional Assumed Liability	X X X	(69,421)		(69,421)	732,388	744,478	(81,511)	
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X							
33. Aggregate write-ins for other lines of business								
34. TOTALS	48,161,930	123,252,957	52,577,005	118,837,882	388,852,347	261,185,658	246,504,571	54.284

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		839,372		839,372	4,646	71,184	4,646	910,556	61,910
2. Allied lines	10,000	442,815	10,000	442,815	4,541	62,230	4,541	505,045	76,015
3. Farmowners multiple peril		830,016		830,016		124,942		954,958	174,648
4. Homeowners multiple peril	29,698	6,084,938	29,698	6,084,938		2,054,216		8,139,154	1,543,998
5. Commercial multiple peril	14,544,509	58,394,610	14,544,509	58,394,610	11,686,619	42,071,458	11,686,619	100,466,068	42,771,324
6. Mortgage guaranty									
8. Ocean marine						2,702		2,702	457
9. Inland marine	11,398	1,030,272	11,398	1,030,272	6,301	447,671	6,301	1,477,943	273,730
10. Financial guaranty									
11.1 Medical malpractice - occurrence									
11.2 Medical malpractice - claims - made									
12. Earthquake		762		762				762	2,929
13. Group accident and health								(a)	305
14. Credit accident and health (group and individual)								(a)	
15. Other accident and health								(a)	23
16. Workers' compensation	75,559,020	100,257,503	86,629,323	89,187,200	51,244,859	69,011,016	54,086,007	155,357,068	20,260,410
17.1 Other liability - occurrence	9,479,699	8,831,922	9,479,699	8,831,922	29,691,636	21,423,337	29,691,636	30,255,259	6,630,232
17.2 Other liability - claims - made									
18.1 Products liability - occurrence	5,000	146,677	5,000	146,677	2,751	539,281	2,751	685,958	237,863
18.2 Products liability - claims - made									15
19.1, 19.2 Private passenger auto liability		22,319,658		22,319,658		9,737,903		32,057,561	6,771,032
19.3, 19.4 Commercial auto liability	924,562	28,813,610	924,562	28,813,610	1,720,261	26,961,149	1,720,261	55,774,759	9,969,667
21. Auto physical damage	72,976	1,200,273	72,976	1,200,273		(55,287)		1,144,986	371,267
22. Aircraft (all perils)									
23. Fidelity		3,314		3,314		26,436		29,750	3,724
24. Surety	3,999	194,548	3,999	194,548	30,300	138,412	30,300	332,960	58,457
26. Burglary and theft		1,635		1,635		1,590		3,225	16,378
27. Boiler and machinery					270	21,242	270	21,242	(3,372)
28. Credit									
29. International									
30. Reinsurance-Nonproportional Assumed Property	X X X				X X X				
31. Reinsurance-Nonproportional Assumed Liability	X X X	87,240		87,240	X X X	645,148		732,388	
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
33. Aggregate write-ins for other lines of business									
34. TOTALS	100,640,861	229,479,165	111,711,164	218,408,862	94,392,184	173,284,630	97,233,332	388,852,344	89,221,012

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	2	3	4
	Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1. Claim adjustment services:				
1.1 Direct	1,694,518			1,694,518
1.2 Reinsurance assumed	20,979,520			20,979,520
1.3 Reinsurance ceded	1,695,331			1,695,331
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	20,978,707			20,978,707
2. Commission and brokerage:				
2.1 Direct, excluding contingent		13,224,202		13,224,202
2.2 Reinsurance assumed, excluding contingent		63,468,124		63,468,124
2.3 Reinsurance ceded, excluding contingent		13,224,202		13,224,202
2.4 Contingent-direct				
2.5 Contingent-reinsurance assumed		12,400,926		12,400,926
2.6 Contingent-reinsurance ceded				
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)		75,869,050		75,869,050
3. Allowances to manager and agents	370	165,054		165,424
4. Advertising	315,960	1,243,586	707	1,560,253
5. Boards, bureaus and associations	137,299	1,097,685	23	1,235,007
6. Surveys and underwriting reports	8	1,370,237	1	1,370,246
7. Audit of assureds' records		8,196		8,196
8. Salary and related items:				
8.1 Salaries	13,078,637	31,948,685	167,415	45,194,737
8.2 Payroll taxes	952,759	2,427,884	7,257	3,387,900
9. Employee relations and welfare	3,502,721	8,568,639	7,263	12,078,623
10. Insurance	2,823,367	277,069	563	3,100,999
11. Directors' fees	137	2,459		2,596
12. Travel and travel items	755,809	2,718,054	5,562	3,479,425
13. Rent and rent items	1,263,903	3,448,649	2,373	4,714,925
14. Equipment	868,285	2,156,943	2,612	3,027,840
15. Cost or depreciation of EDP equipment and software	1,707,431	1,961,106	1,369	3,669,906
16. Printing and stationery	252,840	667,460	372	920,672
17. Postage, telephone and telegraph, exchange and express	553,787	1,718,518	828	2,273,133
18. Legal and auditing	120,467	566,180	15,913	702,560
19. Totals (Lines 3 to 18)	26,333,780	60,346,404	212,258	86,892,442
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 150,071		10,121,581		10,121,581
20.2 Insurance department licenses and fees		301,838		301,838
20.3 Gross guaranty association assessments		18,538		18,538
20.4 All other (excluding federal and foreign income and real estate)		1,412,435		1,412,435
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		11,854,392		11,854,392
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	6,939,430	3,895,278	29,605	10,864,313
25. Total expenses incurred	54,251,917	151,965,124	241,863 (a)	206,458,904
26. Less unpaid expenses-current year	89,221,011	32,983,018		122,204,029
27. Add unpaid expenses-prior year	67,096,397	27,526,158		94,622,555
28. Amounts receivable relating to uninsured plans, prior year				
29. Amounts receivable relating to uninsured plans, current year				
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	32,127,303	146,508,264	241,863	178,877,430

DETAILS OF WRITE-INS				
2401. Change in unallocated expense reserves	4,657,815			4,657,815
2402. Other expenses	2,281,615	3,895,278	29,605	6,206,498
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	6,939,430	3,895,278	29,605	10,864,313

(a) Includes management fees of \$ 237,048 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) 6,524,583	6,402,081
1.1 Bonds exempt from U.S. tax	(a) 3,249,271	4,605,647
1.2 Other bonds (unaffiliated)	(a) 21,634,835	21,490,449
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	3,078,085	3,078,085
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 778,360	813,808
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income	2,886,912	2,886,912
10. Total gross investment income	38,152,046	39,276,982
11. Investment expenses		(g) 241,864
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h) 9,519
14. Depreciation on real estate and other invested assets		(i)
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		251,383
17. Net investment income (Line 10 minus Line 16)		39,025,599
DETAILS OF WRITE-INS		
0901. Investment Income due to Pooling Restatement	2,793,928	2,793,928
0902. Miscellaneous Income/ (Expenses)	92,984	92,984
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page		
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)	2,886,912	2,886,912
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 \$ 560,079 accrual of discount less \$ 504,590 amortization of premium and less \$ 1,222,768 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 \$ 0 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 40,393 accrual of discount less \$ 0 amortization of premium and less \$ 77,378 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 \$ 0 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 Unrealized Increases (Decreases) by Adjustment	4 Total
1. U.S. Government bonds	(230,047)			(230,047)
1.1 Bonds exempt from U.S. tax	9,922			9,922
1.2 Other bonds (unaffiliated)	(536,538)	(129,549)	57,996	(608,091)
1.3 Bonds of affiliates				
2.1 Preferred stocks (unaffiliated)				
2.11 Preferred stocks of affiliates				
2.2 Common stocks (unaffiliated)			360,764	360,764
2.21 Common stocks of affiliates			2,649,848	2,649,848
3. Mortgage loans				
4. Real estate				
5. Contract loans				
6. Cash, cash equivalents and short-term investments	(6,851)			(6,851)
7. Derivative instruments				
8. Other invested assets				
9. Aggregate write-ins for capital gains (losses)	(2,449)			(2,449)
10. Total capital gains (losses)	(765,963)	(129,549)	3,068,608	2,173,096

DETAILS OF WRITE-INS				
0901. Gains/ (Losses) - Sale of Miscellaneous Assets	(2,449)			(2,449)
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)	(2,449)			(2,449)

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	671,289	1,541,180	869,891
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	413,109	373,698	(39,411)
13.3 Accrued retrospective premiums	169,135		(169,135)
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	16,465,178	6,235,213	(10,229,965)
17. Guaranty funds receivable or on deposit			
18. Electronic data processing equipment and software	2,920	8,264	5,344
19. Furniture and equipment, including health care delivery assets	570,750	990,564	419,814
20. Net adjustment in assets and liabilities due to foreign exchange rates			
21. Receivables from parent, subsidiaries and affiliates			
22. Health care and other amounts receivable			
23. Aggregate write-ins for other than invested assets	349,913	564,235	214,322
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	18,642,294	9,713,154	(8,929,140)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	18,642,294	9,713,154	(8,929,140)

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	349,913	564,235	214,322
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)	349,913	564,235	214,322

NOTES TO FINANCIAL STATEMENTS

Note 1- Summary of Significant Accounting Policies

A. Accounting Practices

Effective January 1, 2001, and subject to any deviations prescribed or permitted by the California Insurance Commissioner, the accompanying financial statements of Golden Eagle Insurance Corporation (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. 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. 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. 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. The Company does not own preferred stocks.
5. The Company does not own mortgage loans.
6. Mortgage backed/asset backed securities are stated at amortized cost or market based on guidance in the SVO Manual. Prepayment assumptions for mortgage backed/asset backed securities are updated monthly using the Bloomberg data service. The retrospective adjustment method is used to value all mortgage backed/asset backed securities.
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 does not own any joint ventures, partnerships or limited liability companies.
9. Derivative Securities, 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 2006.
13. The Company has no pharmaceutical rebate receivables.

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

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.

NOTES TO FINANCIAL STATEMENTS

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 has no mortgage loans.

B. Troubled Debt Restructuring for Creditors

Not applicable

C. Reverse Mortgages

The Company has no reverse mortgages.

D. Loan-Backed Securities

1. The Company 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 speed assumptions are updated monthly with data sourced from the Bloomberg data service.
3. 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

The Company does not own real estate.

G. Investments in Low-Income Housing Tax Credits

The Company does not hold investments in low-income housing tax credits.

Note 6- Joint Ventures, Partnerships & Limited Liability Companies

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

B. Impairments on joint ventures, 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, 2006.

Note 8- Derivative Instruments

The Company's investment activities do not include derivatives. However, the Company may acquire derivatives as additions to bond, common stock, or preferred stock investments. These derivatives are ancillary to the overall investment and are immaterial to the underlying investment portfolio.

NOTES TO FINANCIAL STATEMENTS

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, 2006	December 31, 2005	Change
Total of gross deferred tax assets	52,687,000	44,802,000	7,885,000
Total of deferred tax liabilities	(13,009,000)	(14,029,000)	1,020,000
Net deferred tax asset	39,678,000	30,773,000	8,905,000
Net deferred tax asset non-admitted	(16,465,178)	(6,235,213)	(10,229,965)
Net admitted deferred tax asset	23,212,822	24,537,787	(1,324,965)

- 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:

	2006	2005
Federal tax on operations	21,631,757	23,248,363
Net operating loss benefit	0	0
Foreign tax on operations	0	0
Income tax incurred on operations	21,631,757	23,248,363
Tax on capital (losses) gains	(312,572)	1,170,152
Total income tax incurred	21,319,185	24,418,515

The Company's deferred tax assets and liabilities result primarily from discounting of unpaid loss and LAE reserves, limits on unearned premium reserve deductions, deferred compensation, allowance for doubtful accounts, unrealized gains, nondeductible accrued expenses, fixed asset depreciation differences, minimum tax credit carryforward, and statutory non-admitted assets.

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

	2006
Change in net deferred income tax (without unrealized gain or loss)	9,051,566
Tax effect of unrealized (gains) losses	(146,566)
Total change in net deferred income tax	8,905,000

- D. Effective tax rates differ from the current statutory rate of 35% principally due to tax exempt income, revisions to prior year estimates and changes in deferred taxes related to statutory non-admitted assets.
- E. The amount of Federal income taxes incurred and available for recoupment in the event of future losses are \$21,045,000 from the current year and \$14,154,00 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 Life Holdings, Inc.
Ambco Capital Corporation	Liberty Lloyds of Texas Insurance Company
America First Insurance Company	Liberty Management Services, Inc.
America First Lloyds Insurance Company	Liberty Mexico Holdings, Inc.
American Ambassador Casualty Company	Liberty Mutual Fire Insurance Company
Berkeley Holding Company Associates, Inc.	Liberty Mutual Group Inc.
Berkeley Management Corporation	Liberty Mutual Holding Company, Inc.
Bridgefield Casualty Insurance Company	Liberty Mutual Insurance Company
Bridgefield Employers Insurance Company	Liberty Mutual Managed Care, Inc.
Capitol Agency, Inc. (Arizona corporation)	Liberty Mutual Personal Insurance Company
Capitol Agency, Inc. (Ohio corporation)	Liberty Northwest Insurance Corporation
Capitol Agency, Inc. (Tennessee corporation)	Liberty Personal Insurance Company
Cascade Disability Management, Inc.	Liberty RE (Bermuda) Limited
Colorado Casualty Insurance Company	Liberty Real Estate Corporation
Companies Agency Insurance Services of California	Liberty Sponsored Insurance (Vermont) Inc.
Companies Agency of Alabama, Inc.	Liberty Surplus Insurance Corporation
Companies Agency of Georgia, Inc.	Liberty-USA Corporation
Companies Agency of Kentucky, Inc.	LIH-Re of America Corporation
Companies Agency of Massachusetts, Inc.	LIH U.S. P&C Corporation
Companies Agency of Michigan, Inc.	LIIA Insurance Agency, Inc.
Companies Agency of New York, Inc.	LIU Specialty Insurance Agency, Inc.
Companies Agency of Pennsylvania, Inc.	LLS Insurance Agency of Nevada, Inc.
Companies Agency of Phoenix, Inc.	LM Insurance Corporation
Consolidated Insurance Company	LMHC Massachusetts Holding, Inc.
Copley Venture Capital, Inc.	LRE Properties, Inc.
Countrywide Services Corporation	Mid-American Agency, Inc.
Diversified Settlements, Inc.	Mid-American Fire and Casualty Company
Employers Insurance Company of Wausau	Missouri Agency, Inc.
Excelsior Insurance Company	North Pacific Insurance Company
First State Agency, Inc.	Oregon Automobile Insurance Company

NOTES TO FINANCIAL STATEMENTS

Florida State Agency, Inc.	Peerless Indemnity Insurance Company
Globe American Casualty Company	Peerless Insurance Company
Golden Eagle Insurance Corporation	LM Personal Insurance Company
Gulf States AIF, Inc.	LM General Insurance Company
Hawkeye-Security Insurance Company	LM Property and Casualty Insurance Company
Helmsman Insurance Agency of Illinois, Inc.	San Diego Insurance Company
Helmsman Insurance Agency of Texas, Inc.	State Agency, Inc. (Indiana corporation)
Heritage-Summit Healthcare of Florida, Inc.	State Agency, Inc. (Wisconsin corporation)
Indiana Insurance Company	St. James Insurance Company
LEXCO Limited	Summit Consulting, Inc.
Liberty Assignment Corporation	Summit Consulting, Inc. of Louisiana
Liberty Energy Corporation	Summit Holding Southeast, Inc.
Liberty Financial Services, Inc.	The First Liberty Insurance Corporation
Liberty Hospitality Group, Inc.	The Midwestern Indemnity Company
Liberty Insurance Company of America	The National Corporation
Liberty Insurance Corporation	The Netherlands Insurance Company
Liberty Insurance Holdings, Inc.	Wausau Business Insurance Company
Liberty Insurance Underwriters, Inc.	Wausau General Insurance Company
Liberty International Asia Pacific Holdings, Inc.	Wausau Service Corporation
Liberty International Holdings, Inc.	Wausau Signature Agency, Inc.
Liberty Life Assurance Company of Boston	Wausau Underwriters Insurance Company

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. All of the outstanding shares of capital stock of the Company are held by Liberty Mutual Insurance Company ("LMIC"), a Massachusetts company. LMIC is wholly owned by Liberty Mutual Group, Inc., a Massachusetts company. The Company owns 100% of the stock of San Diego Insurance Company ("SDIC").
- B. Transactions entered into by the Company with its affiliates are described on Schedule Y Part 2.
- During 2006 the Company paid an ordinary dividend of \$ 28,725,000 to its Parent, LMIC.
- C. Refer to Note 26.
- D. At December 31, 2006, the Company reported \$6,829,110 due to affiliates. In general, the terms of the inter-company 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. Refer to Note 26 for information regarding the Inter-Company Reinsurance Agreement.

The Company entered into a management services agreement, effective August 27, 1997, with 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.

The Company is party to a services agreement with SDIC effective August 21, 1997.

The Company entered into a services agreement (the "Agreement"), effective April 1, 2001, with Peerless Insurance Company ("PIC") and other affiliates. The Agreement allows all 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 LMIC, and effective May 1, 2000 with Liberty Mutual Investment Advisors LLC (LMIA). Effective January 1, 2007, the May 26, 1999 Investment Management Agreement with LMIC was terminated and a new agreement went into effect. 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 an agreement for a loan or extension of credit effective May 22, 2006; namely a revolving credit agreement under which the Company may borrow up to \$50,000,000 from LMIC. Each loan will be for six months or less. The purpose of the extension of credit is for operating liquidity to accommodate fluctuations in daily cash flow and to promote efficient management of investments. As of December 31, 2006, there have been no drawings under this agreement.

The Company is party to a Federal Tax Sharing Agreement between LMIC and affiliates (see Note 9F).

- 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.

NOTES TO FINANCIAL STATEMENTS

- I. The Company has no investments in subsidiary, controlled or affiliated companies greater than 10% of admitted assets.
- J. The Company did not recognize any impairment write down for its subsidiary, controlled, or affiliated companies during the statement period.
- K. Refer to Note 10 I.

Note 11- Debt

- A. The Company has no capital notes.
- B. The Company has no outstanding borrowed money.

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 the management services agreement as described in Note 10 F.

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

- 1. The Company has 26,000 shares authorized, issued, and outstanding as of December 31, 2006. All shares have a stated par value of \$100.
- 2. Preferred Stock
Not applicable
- 3. Dividend restrictions
There are no dividend restrictions.
- 4. The maximum amount of dividends which can be paid by California-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 2007 is \$27,948,940.
- 5. The Company does not have restricted surplus.
- 6. The Company had no advances to surplus.
- 7. The Company did not hold stock for special purposes.
- 8. The Company does not have special surplus funds.
- 9. The portion of unassigned funds represented by cumulative unrealized gains and (losses) is \$5,487,919.
- 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 made no commitments or contingent commitments to affiliates except as indicated in Note 10 E. The Company has made no guarantees on behalf of affiliates.

- B. Assessments

The Company is subject to guaranty fund and other assessments by the states in which it writes business. Guaranty fund 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 fund and other assessments of \$2,783,887 that is offset by future premium tax credits of \$729,912. 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 eleven years, beginning in 2006.

NOTES TO FINANCIAL STATEMENTS

During 2006 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.

As disclosed in Note 9 F, the Company is a member of a controlled group for federal income tax purposes, and that group includes Liberty Mutual Group Inc. ("LMGI"). LMGI is the plan sponsor of the Liberty Mutual Retirement Benefit Plan, a qualified plan under federal law. Pursuant to federal law, if LMGI has not made the minimum required contributions with respect to the Liberty Mutual Retirement Benefit Plan, the Company, jointly and severally with all other members of the controlled group, would be contingently liable to make such contributions.

Note 15- Leases

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

Year(s)	Operating Lease Arrangements
2007	\$1,616,632
2008	1,570,848
2009	1,138,225
2010	940,369
2011	902,689
2012 & thereafter	3,338,148
Total	\$9,506,911

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 with 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 a 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. Under the terms of the lending agreement, the Company does not participant in term loans. Therefore, the Company does not have collateral transactions that extend beyond one year from the reporting date. 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. Additionally, the lending agent indemnifies the Company against borrower defaults. Under the terms of the securities lending program, all collateral is restricted. Cash collateral is carried as a liability on the balance sheet, as, while the collateral is restricted, the Company can exercise discretion as to how the collateral is invested. The loaned securities remain a recorded asset of the Company. At December 31, 2006 the total market value of fixed maturities on loan was \$50,838,764 with corresponding collateral value of \$51,868,449 of which \$46,344,770 represents cash collateral.

C. Wash Sales

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

Note 18-Gain or Loss from Uninsured 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

NOTES TO FINANCIAL STATEMENTS

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 did not have 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 \$9,750,018 and \$44,808,818 as of December 31, 2006 and 2005, respectively, were on deposit with government authorities or trustees as required by law.

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. Hybrid Securities

The Company currently owns the following securities meeting the NAIC definition of “Hybrid Securities” per SVO report 9B. These are all NAIC Class 1 securities reported on Schedule D1.

<u>CUSIP</u>	<u>Issuer</u>	<u>Description</u>	<u>Book/Adjusted Carrying Value</u>
05563RAA6	BANK OF NY CAPITAL	Redeemable Preferred	842,904
31945JAA9	FIRST CHICAGO CAPITAL	Redeemable Preferred	2,828,241

G. State Transferable Tax Credits

The Company does not hold transferable state tax credits.

H. Impact of Medicare Modification Act on Post Retirement Benefits

Not applicable. (Refer to Note 12)

Note 22- Events Subsequent

There were no events subsequent to December 31, 2006 which would require disclosure.

Note 23- Reinsurance

A. Excluding amounts arising pursuant to the PIC 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, 2006.

	<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	\$209,492,751	\$28,932,010	\$43,389,432	\$7,045,279	\$166,103,319	\$21,886,731
All Other	0	0	0	0	0	0
Total	<u>\$209,492,751</u>	<u>\$28,932,010</u>	<u>\$43,389,432</u>	<u>\$7,045,279</u>	<u>\$166,103,319</u>	<u>\$21,886,731</u>

Direct unearned premium reserve of \$43,389,432

2. Certain contracts provide for additional or return commissions based on the actual loss experience of the produced or reinsured business. Amounts accrued at December 31, 2006 are as follows:

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Direct	\$	0
Assumed		13,278,868
Ceded		0
Net		\$13,278,868

- D. The Company did not write off any uncollectible balances in 2006.
- E. The Company has not recorded any commutations in the current year.
- F. The Company does not have any retroactive reinsurance agreements.
- G. There are no contracts recorded as deposit accounting.

Note 24 - Retrospectively Rated Contracts and Contracts Subject to Redetermination

- A. The Company estimates accrued retrospective premium adjustments through the review of each individual retrospectively rated risk, comparing case-base loss development with that anticipated in the policy contract to arrive at the best estimate of return or additional retrospective premium.
- B. Accrued retrospective premiums are recorded as a component of written premiums.
- C. For detail of net premium written subject to retrospective rating features see Schedule P - Part 7A.
- D. Ten percent of the amount not offset by retrospective return premiums or collateral has been designated non-admitted and charged to surplus.

a. Total accrued retro premium		\$1,691,348
b. Less: Non-admitted amount (10%)		169,135
c. Admitted amount		\$1,522,213

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 2006 as a result of improving loss trends in Commercial Multiple Peril and Commercial Auto Liability. Prior estimates are revised as additional information becomes known regarding individual claims.

Note 26- Inter-Company Pooling Arrangements

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

		<u>NAIC</u> <u>Co. #</u>	<u>Pooling</u> <u>%</u>	<u>Lines of</u> <u>Business</u>
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
	Liberty Mutual Mid-Atlantic Insurance Company (fka Merchants & Business Men's Mutual Insurance Company) (LMMAIC)	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
	Liberty Northwest Insurance Company (LNW)	41939	0.00%	All Lines
	North Pacific Insurance Company (NPIC)	23892	0.00%	All Lines
	Oregon Automobile Insurance Company (OAIC)	23922	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.

NOTES TO FINANCIAL STATEMENTS

- (b) With the exception of NPIC and OAIC, each 100% Quota Share Affiliated Company cedes its net underwriting activity to PIIC. NPIC and OAIC cede their net underwriting activity to LNW.
- (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 that 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, 2006 PIC entered into an inter-company 100% Quota Share Reinsurance Agreement with LNW, NPIC and OAIC. The transaction resulted in LNW, NPIC and OAIC transferring its in-force business, as of January 1, 2006 to PIC and compensating PIC by a like amount. There were no gains or losses to surplus as a result. Also effective January 1, 2006 the Reinsurance Agreements between LNW, OAIC and NPIC were terminated via Cancellation Addenda to the Reinsurance Agreements.

Note 27- Structured Settlements

- A. As a result of purchased annuities with the claimant as payee, the Company no longer carries reserves of \$7,408,508 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 \$7,408,508 as of December 31, 2006.
- 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.

Note 28 - Health Care Receivables

Not applicable

Note 29 - Participating Policies

Not applicable

Note 30 – Premium Deficiency Reserves

As of December 31, 2006, 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 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, 2006 liabilities of \$160,240,709 are carried at a discounted value of \$155,357,068 representing a discount of \$4,883,642.

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.

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

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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.

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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct Basis					
Beginning Reserves	1,485,286	2,015,091	2,284,282	2,396,435	2,386,413
Incurring losses and LAE	761,875	455,726	428,310	319,530	438,004
Calendar year payments	232,070	186,535	316,157	329,552	180,507
Ending Reserves	<u>2,015,091</u>	<u>2,284,282</u>	<u>2,396,435</u>	<u>2,386,413</u>	<u>2,643,910</u>
Assumed Reinsurance Basis					
Beginning Reserves	265,227	177,222	125,695	39,883	39,883
Incurring losses and LAE	-	-	-	-	-
Calendar year payments	88,005	51,527	85,812	-	-
Ending Reserves	<u>177,222</u>	<u>125,695</u>	<u>39,883</u>	<u>39,883</u>	<u>39,883</u>
Net of Ceded Reinsurance Basis					
Beginning Reserves	1,410,103	1,676,760	2,084,466	1,904,587	1,831,916
Incurring losses and LAE	536,625	645,768	158,034	256,881	358,504
Calendar year payments	269,968	238,062	337,913	329,552	101,007
Ending Reserves	<u>1,676,760</u>	<u>2,084,466</u>	<u>1,904,587</u>	<u>1,831,916</u>	<u>2,089,413</u>
Ending Reserves for Bulk + IBNR included above (Loss & LAE)					
Direct Basis					1,914,011
Assumed Reinsurance Basis					39,883
Net of Ceded Reinsurance Basis					1,549,263
Ending Reserves for LAE included above (Case, Bulk & IBNR)					
Direct Basis					510,085
Assumed Reinsurance Basis					-
Net of Ceded Reinsurance Basis					445,100

Environmental:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct Basis					
Beginning Reserves	2,789,280	1,753,242	1,721,315	1,849,416	2,323,400
Incurring losses and LAE	66,614	98,521	396,082	1,128,563	390,692
Calendar year payments	1,102,652	130,448	267,981	654,579	1,002,744
Ending Reserves	<u>1,753,242</u>	<u>1,721,315</u>	<u>1,849,416</u>	<u>2,323,400</u>	<u>1,711,348</u>

NOTES TO FINANCIAL STATEMENTS

Assumed Reinsurance Basis

Beginning Reserves	86,848	99,734	742,713	688,868	704,624
Incurring losses and LAE	-	662,500	-	18,230	46,388
Calendar year payments	(12,886)	19,521	53,845	2,474	108,132
Ending Reserves	99,734	742,713	688,868	704,624	642,880

Net of Ceded Reinsurance Basis

Beginning Reserves	2,440,582	1,385,437	2,313,917	1,938,473	1,888,998
Incurring losses and LAE	-	1,035,870	25,653	573,992	181,922
Calendar year payments	1,055,145	107,390	401,097	623,467	912,063
Ending Reserves	1,385,437	2,313,917	1,938,473	1,888,998	1,158,857

Ending Reserves for Bulk + IBNR included above (Loss & LAE)

Direct Basis	411,033
Assumed Reinsurance Basis	641,118
Net of Ceded Reinsurance Basis	624,196
Ending Reserves for LAE included above (Case, Bulk & IBNR)	
Direct Basis	363,004
Assumed Reinsurance Basis	-
Net of Ceded Reinsurance Basis	283,578

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	63,042,876	7.101	63,042,874	7.101
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	46,046,979	5.187	46,046,979	5.187
1.22 Issued by U.S. government sponsored agencies	19,507,408	2.197	19,507,408	2.197
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	51,479,587	5.799	51,479,587	5.799
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	53,137,999	5.986	53,137,999	5.986
1.43 Revenue and assessment obligations	77,437,367	8.723	77,437,367	8.723
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	24,509,604	2.761	24,509,604	2.761
1.512 Issued or guaranteed by FNMA and FHLMC	84,238,161	9.489	84,238,161	9.489
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	91,870,703	10.349	91,870,703	10.349
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	28,272,625	3.185	28,272,625	3.185
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	147,710,272	16.639	147,710,268	16.639
2.2 Unaffiliated foreign securities	18,308,985	2.062	18,308,985	2.062
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	41,752,504	4.703	41,752,504	4.703
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated	59,786,046	6.735	59,786,046	6.735
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				
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	5,102,440	0.575	5,102,440	0.575
8. Cash, cash equivalents and short-term investments	75,547,187	8.510	75,547,193	8.510
9. Other invested assets				
10. Total invested assets	887,750,743	100.000	887,750,743	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? California
- 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: 12/31/2004
- 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. 12/31/2004
- 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). 07/05/2006
- 3.4 By what department or departments? California 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 Name of Entity	2 NAIC Company Code	3 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? 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 Nationality	2 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.

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [] No [X]
 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	2	3	4	5	6	7
Affiliate Name	Location (City, State)	FRB	OCC	OTS	FDIC	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, NH 03431
 Vice President & Chief 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 _____ 0
 11.13 Total book/adjusted carrying value \$ _____ 0

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 [] No [X]
 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 \$ _____ 0
 16.12 To stockholders not officers \$ _____ 0
 16.13 Trustees, supreme or grand (Fraternal only) \$ _____ 0
 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 \$ _____ 0
 16.22 To stockholders not officers \$ _____ 0
 16.23 Trustees, supreme or grand (Fraternal only) \$ _____ 0
 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 \$ _____ 0
 17.22 Borrowed from others \$ _____ 0
 17.23 Leased from others \$ _____ 0
 17.24 Other \$ _____ 0

- 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 \$ _____ 0
 18.22 Amount paid as expenses \$ _____ 0
 18.23 Other amounts paid \$ _____ 0
 19.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No []

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

19.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ 0

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 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 No

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

21.21 Loaned to others	\$	50,838,765
21.22 Subject to repurchase agreements	\$	0
21.23 Subject to reverse repurchase agreements	\$	0
21.24 Subject to dollar repurchase agreements	\$	0
21.25 Subject to reverse dollar repurchase agreements	\$	0
21.26 Pledged as collateral	\$	0
21.27 Placed under option agreements	\$	0
21.28 Letter stock or securities restricted as to sale	\$	0
21.29 Other	\$	0

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

22.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes No N/A
 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

23.2 If yes, state the amount thereof at December 31 of the current year. \$ 0

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 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

24.04 If yes, give full and complete information relating thereto:

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

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

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

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 [X] 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	41,752,504
25.2999	Total	41,752,504

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	VENTAS REALTY LP/CAP CRP	903,814	12/31/2006
LMIA HIGH YIELD FUND	JP MORGAN PRIME MONEY MARKET FUND	856,691	12/31/2006
LMIA HIGH YIELD FUND	CHESAPEAKE ENERGY CORP	851,270	12/31/2006
LMIA HIGH YIELD FUND	WILLIAMS PARTNERS LP/WIL	749,407	12/31/2006
LMIA HIGH YIELD FUND	SENIOR HOUSING PROP	696,311	12/31/2006

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	741,527,359	738,354,173	(3,173,186)
26.2 Preferred stocks			
26.3 Totals	741,527,359	738,354,173	(3,173,186)

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 [X] 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? \$ 367,350

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.	\$ 362,196
	\$
	\$

29.1 Amount of payments for legal expenses, if any? \$ 406,393

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
Brown Law Group ALC	\$ 243,617
	\$
	\$

30.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$ 0

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 1 - COMMON INTERROGATORIES

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	\$ 454,104,672	\$ 382,281,290
2.3 Premium Ratio (2.1/2.2)	_____	_____
2.4 Reserve Numerator	\$ 328	\$ 327
2.5 Reserve Denominator	\$ 707,540,238	\$ 534,291,546
2.6 Reserve Ratio (2.4/2.5)	_____	_____

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

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 2006, the Company purchased Workers' Compensation Catastrophe reinsurance separately and/or with the Liberty Mutual Group with limits of \$975m 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 Northeast 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 2006, the Company purchased property catastrophe reinsurance, separately and/or with the Liberty Mutual Group with limits of \$1,650m 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	\$ 7,036,442
12.12	Unpaid underwriting expenses (including loss adjustment expenses)	\$ 785,202

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? \$ 341,188

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 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ 2,540,688

13.2 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]

13.3 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

14.1 Is the company a cedant in a multiple cedant reinsurance contract? YES [X] NO []

14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants: Premiums and recoverables were allocated pursuant to separate intercompany agreements.

14.3 If the answer to 14.1 is yes, are the methods described in item 14.2 entirely contained in the respective multiple cedant reinsurance contracts? YES [] NO [X]

14.4 If the answer to 14.3 is no, are all the methods described in 14.2 entirely contained in written agreements? YES [X] NO []

14.5 If the answer to 14.4 is no, please explain: _____

15.1 Has the reporting entity guaranteed any financed premium accounts? YES [] NO [X]

15.2 If yes, give full information _____

16.1 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
16.11 Home	\$	\$	\$	\$	\$
16.12 Products	\$	\$	\$	\$	\$
16.13 Automobile	\$	\$	\$	\$	\$
16.14 Other*	\$	\$	\$	\$	\$

* Disclose type of coverage: _____

GENERAL INTERROGATORIES
(Continued)

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

17.1 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:

17.11	Gross amount of unauthorized reinsurance in Schedule F - Part 3 excluded from Schedule F - Part 5	\$ _____
17.12	Unfunded portion of Interrogatory 17.11	\$ _____
17.13	Paid losses and loss adjustment expenses portion of Interrogatory 17.11	\$ _____
17.14	Case reserves portion of Interrogatory 17.11	\$ _____
17.15	Incurred but not reported portion of Interrogatory 17.11	\$ _____
17.16	Unearned premium portion of Interrogatory 17.11	\$ _____
17.17	Contingent commission portion of Interrogatory 17.11	\$ _____

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

17.18	Gross amount of unauthorized reinsurance in Schedule F - Part 3 excluded from Schedule F - Part 5	\$ _____
17.19	Unfunded portion of Interrogatory 17.18	\$ _____
17.20	Paid losses and loss adjustment expenses portion of Interrogatory 17.18	\$ _____
17.21	Case reserves portion of Interrogatory 17.18	\$ _____
17.22	Incurred but not reported portion of Interrogatory 17.18	\$ _____
17.23	Unearned premium portion of Interrogatory 17.18	\$ _____
17.24	Contingent commission portion of Interrogatory 17.18	\$ _____

FIVE-YEAR HISTORICAL DATA

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

	1 2006	2 2005	3 2004	4 2003	5 2002
Gross Premiums Written (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)	242,834,000	181,579,716	203,325,206	162,570,028	156,391,782
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	71,425,439	63,872,685	70,945,986	42,474,956	44,896,831
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	242,315,376	206,223,857	226,471,074	55,482,402	54,607,099
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	1,151,550	183,555	(2,047,788)	4,420,563	13,483,884
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)			(373,956)	5,535,484	3,638,837
6. Total (Line 34)	557,726,365	451,859,813	498,320,522	270,483,433	273,018,433
Net Premiums Written (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)	217,215,511	159,650,250	183,383,292	143,974,497	125,616,262
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	68,293,060	61,783,001	69,285,352	40,768,488	38,249,177
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	189,632,760	167,391,515	200,072,142	36,035,758	29,472,823
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	1,151,550	183,555	(2,047,788)	4,420,668	13,451,257
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)			(373,956)	5,535,484	3,638,837
12. Total (Line 34)	476,292,881	389,008,321	450,319,042	230,734,895	210,428,356
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	1,383,045	6,101,548	143,439	(21,858,941)	(17,331,532)
14. Net investment gain (loss) (Line 11)	38,442,658	33,425,966	34,391,670	36,722,471	36,298,500
15. Total other income (Line 15)	678,869	(555,064)	205,390	(5,641,860)	(3,144,047)
16. Dividends to policyholders (Line 17)	1,283,655	631,528	479,018	(60,034)	1,621,892
17. Federal and foreign income taxes incurred (Line 19)	21,631,757	23,248,363	10,224,164	(8,183,453)	2,752,737
18. Net income (Line 20)	17,589,160	15,092,559	24,037,317	17,465,157	11,448,292
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	1,095,098,457	894,098,559	752,251,616	770,675,974	724,746,334
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	32,010,669	46,267,263	17,162,216	22,135,043	21,896,147
20.2 Deferred and not yet due (Line 13.2)	140,018,495	102,757,225	98,836,764	38,504,971	32,385,625
20.3 Accrued retrospective premiums (Line 13.3)	1,522,213			19,914,856	17,486,765
21. Total liabilities excluding protected cell business (Page 3, Line 24)	815,609,053	606,844,476	488,364,368	535,691,248	517,851,345
22. Losses (Page 3, Line 1)	388,852,348	280,203,471	228,017,584	329,682,944	311,267,232
23. Loss adjustment expenses (Page 3, Line 3)	89,221,011	67,096,397	54,666,850	65,191,648	59,323,112
24. Unearned premiums (Page 3, Line 9)	209,492,751	186,991,678	179,590,789	95,881,514	80,641,808
25. Capital paid up (Page 3, Lines 28 & 29)	2,600,000	2,600,000	2,600,000	2,600,000	2,600,000
26. Surplus as regards policyholders (Page 3, Line 35)	279,489,404	287,254,083	263,887,248	234,984,726	206,894,989
Risk-Based Capital Analysis					
27. Total adjusted capital	279,489,404	287,254,083	263,887,248	234,984,726	206,894,989
28. Authorized control level risk-based capital	41,442,052	36,486,937	27,380,153	32,392,384	30,200,961
Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
29. Bonds (Line 1)	79.5	80.9	79.2	79.2	81.0
30. Stocks (Lines 2.1 & 2.2)	11.4	13.5	16.2	13.3	12.1
31. Mortgage loans on real estate (Lines 3.1 and 3.2)					
32. Real estate (Lines 4.1, 4.2 & 4.3)					
33. Cash, cash equivalents and short-term investments (Line 5)	8.5	5.4	4.2	7.0	6.6
34. Contract loans (Line 6)					XXX
35. Other invested assets (Line 7)			0.3	0.5	0.2
36. Receivables for securities (Line 8)	0.6	0.1			
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
Investments in Parent, Subsidiaries and Affiliates					
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)	59,786,046	57,136,198	55,611,846	50,857,597	44,276,610
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	59,786,046	57,136,198	55,611,846	50,857,597	44,276,610
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)	21.4	19.9	21.1	21.6	21.4

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2006	2 2005	3 2004	4 2003	5 2002
Capital and Surplus Accounts (Page 4)					
47. Net unrealized capital gains (losses) (Line 24)	2,922,042	347,430	5,303,600	9,899,113	2,465,249
48. Dividends to stockholders (Line 35)	(28,725,000)				
49. Change in surplus as regards policyholders for the year (Line 38)	(7,764,679)	23,366,835	28,902,522	28,089,737	16,766,588
Gross Losses Paid (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)	56,348,735	112,302,489	300,278,536	187,471,534	234,892,540
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	28,202,995	26,557,390	25,728,664	22,477,522	25,782,182
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	86,596,200	72,630,600	35,627,401	43,979,268	76,722,946
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	336,378	95,084	14,071,861	7,386,681	10,848,746
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(69,421)		4,651,884	2,545,043	2,640,415
55. Total (Line 34)	171,414,887	211,585,563	380,358,346	263,860,048	350,886,829
Net Losses Paid (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)	17,291,274	69,928,453	233,243,542	85,089,048	98,159,518
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	27,381,668	25,185,487	24,322,338	19,057,459	19,106,724
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	73,969,217	60,227,288	12,446,049	14,855,654	16,698,396
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	265,144	95,084	14,071,861	7,386,681	10,849,277
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(69,421)		4,651,884	2,545,043	2,640,415
61. Total (Line 34)	118,837,882	155,436,312	288,735,674	128,933,885	147,454,330
Operating Percentages (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)	54.3	49.3	53.6	66.4	68.6
64. Loss expenses incurred (Line 3)	11.9	13.2	12.9	19.1	16.4
65. Other underwriting expenses incurred (Line 4)	33.5	35.9	33.8	24.4	100.2
66. Net underwriting gain (loss) (Line 8)	0.3	1.6		(10.0)	(8.8)
Other Percentages					
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)	31.8	35.4	25.9	25.6	23.8
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	66.2	62.5	66.5	85.5	85.1
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)	170.4	135.4	170.6	98.2	101.7
One Year Loss Development (000 omitted)					
70. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)	(7,123)	(8,214)	3,136	18,346	15,286
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)	(2.5)	(3.1)	1.3	8.9	8.0
Two Year Loss Development (000 omitted)					
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)	2,475	(2,308)	14,917	38,515	57,869
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)	0.9	(1.0)	7.2	20.3	31.0

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
BONDS	1. United States	153,106,870	151,810,863	153,025,782	153,102,903
	2. Canada				
	3. Other Countries				
	4. Totals	153,106,870	151,810,863	153,025,782	153,102,903
Governments (Including all obligations guaranteed by governments)	5. United States	51,479,590	52,295,762	51,477,167	51,735,000
	6. Canada				
	7. Other Countries				
	8. Totals	51,479,590	52,295,762	51,477,167	51,735,000
States, Territories and Possessions (Direct and guaranteed)	9. United States	53,137,999	53,591,838	53,126,064	53,615,000
	10. Canada				
	11. Other Countries				
	12. Totals	53,137,999	53,591,838	53,126,064	53,615,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	13. United States	253,546,234	251,024,584	253,596,040	254,322,510
	14. Canada				
	15. Other Countries				
	16. Totals	253,546,234	251,024,584	253,596,040	254,322,510
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	17. United States	13,907,075	13,573,850	13,901,660	14,000,000
	18. Canada				
	19. Other Countries				
	20. Totals	13,907,075	13,573,850	13,901,660	14,000,000
Public Utilities (unaffiliated)	21. United States	162,075,812	161,929,983	162,442,452	161,487,662
	22. Canada	991,650	949,300	988,510	1,000,000
	23. Other Countries	17,317,336	17,213,200	17,196,710	17,500,000
	24. Totals	180,384,798	180,092,483	180,627,672	179,987,662
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	25. Totals				
	26. Total Bonds	705,562,566	702,389,380	705,754,385	706,763,075
PREFERRED STOCKS	27. United States				
	28. Canada				
	29. Other Countries				
	30. Totals				
Public Utilities (unaffiliated)	31. United States				
	32. Canada				
	33. Other Countries				
	34. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	35. United States				
	36. Canada				
	37. Other Countries				
	38. Totals				
Industrial and Miscellaneous (unaffiliated)	39. Totals				
	40. Total Preferred Stocks				
COMMON STOCKS	41. United States				
	42. Canada				
	43. Other Countries				
	44. Totals				
Public Utilities (unaffiliated)	45. United States				
	46. Canada				
	47. Other Countries				
	48. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	49. United States	41,752,504	41,752,504	40,649,946	
	50. Canada				
	51. Other Countries				
	52. Totals	41,752,504	41,752,504	40,649,946	
Industrial and Miscellaneous (unaffiliated)	53. Totals	59,786,046	59,786,046	55,400,000	
	54. Total Common Stocks	101,538,550	101,538,550	96,049,946	
Parent, Subsidiaries and Affiliates	55. Total Stocks	101,538,550	101,538,550	96,049,946	
	56. Total Bonds and Stocks	807,101,116	803,927,930	801,804,331	

SCHEDULE D - VERIFICATION BETWEEN YEARS
Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year	667,364,569	7. Amortization of premium	504,590
2. Cost of bonds and stocks acquired, Column 7, Part 3	239,566,291	8. Foreign Exchange Adjustment:	
3. Accrual of discount	560,078	8.1 Column 15, Part 1	
4. Increase (decrease) by adjustment:		8.2 Column 19, Part 2 Section 1	
4.1 Columns 12 - 14, Part 1	(21,306)	8.3 Column 16, Part 2, Section 2	
4.2 Column 15 - 17, Part 2, Section 1		8.4 Column 15, Part 4	
4.3 Column 15, Part 2, Section 2	3,010,612	9. Book/adjusted carrying value at end of current period	807,101,116
4.4 Column 11 - 13, Part 4	(50,247)	10. Total valuation allowance	
5. Total gain (loss), Column 19, Part 4	(756,663)	11. Subtotal (Lines 9 plus 10)	807,101,116
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4	102,067,628	12. Total nonadmitted amounts	
		13. Statement value of bonds and stocks, current period	807,101,116

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	3,736	823	639	126	135	50	40	3,511	X X X
2. 1997	252,555	39,885	212,670	161,810	27,865	13,101	1,904	18,134	2,709	6,359	160,567	X X X
3. 1998	288,987	52,872	236,115	192,472	47,831	14,751	3,012	23,510	5,578	6,499	174,312	X X X
4. 1999	267,843	39,483	228,360	188,387	33,955	13,693	2,099	23,085	4,135	6,414	184,976	X X X
5. 2000	254,547	31,541	223,006	178,724	27,820	13,241	1,260	20,531	2,414	5,953	181,002	X X X
6. 2001	273,163	37,022	236,141	169,896	27,478	13,370	982	19,824	2,603	5,681	172,027	X X X
7. 2002	373,060	89,013	284,047	201,909	44,626	13,860	2,886	17,793	3,724	5,680	182,326	X X X
8. 2003	429,439	73,601	355,838	191,674	37,911	12,571	2,048	27,130	4,660	6,231	186,756	X X X
9. 2004	441,263	41,211	400,052	166,682	13,811	7,495	665	23,720	1,800	6,690	181,621	X X X
10. 2005	463,952	27,593	436,359	153,942	16,045	5,674	666	24,886	1,177	5,514	166,614	X X X
11. 2006	478,669	24,564	454,105	102,013	2,832	2,133	10	21,643	1,865	2,782	121,082	X X X
12. Totals	X X X	X X X	X X X	1,711,245	280,997	110,528	15,658	220,391	30,715	57,843	1,714,794	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	28,445	8,062	5,062	3,540			1,331	256	1,253	98	23	24,135	X X X
2. 1997	6,115	1,975	2,105	1,441			380	34	278	19	39	5,409	X X X
3. 1998	8,045	4,134	2,312	1,560			480	46	382	24	60	5,455	X X X
4. 1999	8,248	4,490	2,696	1,726			688	67	481	28	87	5,802	X X X
5. 2000	8,757	5,912	4,541	2,340			1,186	109	725	45	122	6,803	X X X
6. 2001	9,354	5,302	5,895	2,075			1,545	157	969	58	253	10,171	X X X
7. 2002	16,494	4,325	9,658	3,051			3,901	260	1,502	83	582	23,836	X X X
8. 2003	14,612	5,049	15,281	4,806			4,506	373	2,522	131	865	26,562	X X X
9. 2004	40,298	4,961	32,247	5,174			11,917	505	3,805	181	1,484	77,446	X X X
10. 2005	52,614	4,175	45,060	7,358			15,263	670	7,006	304	1,879	107,436	X X X
11. 2006	76,020	2,208	82,778	4,119			20,140	109	13,124	609	3,479	185,017	X X X
12. Totals	269,002	50,593	207,635	37,190			61,337	2,586	32,047	1,580	8,873	478,072	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	21,905	2,230
2. 1997	201,923	35,947	165,976	79.952	90.127	78.044			13.250	4,804	605
3. 1998	241,952	62,185	179,767	83.724	117.614	76.135			13.250	4,663	792
4. 1999	237,278	46,500	190,778	88.588	117.772	83.543			13.250	4,728	1,074
5. 2000	227,705	39,900	187,805	89.455	126.502	84.215			13.250	5,046	1,757
6. 2001	220,853	38,655	182,198	80.850	104.411	77.156			13.250	7,872	2,299
7. 2002	265,117	58,955	206,162	71.066	66.232	72.580			13.250	18,776	5,060
8. 2003	268,296	54,978	213,318	62.476	74.697	59.948			13.250	20,038	6,524
9. 2004	286,164	27,097	259,067	64.851	65.752	64.758			13.250	62,410	15,036
10. 2005	304,445	30,395	274,050	65.620	110.155	62.804			13.250	86,141	21,295
11. 2006	317,851	11,752	306,099	66.403	47.842	67.407			13.250	152,471	32,546
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	388,854	89,218

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
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	One Year	Two Year
1. Prior	151,735	151,537	149,341	147,400	143,213	147,587	147,862	146,783	149,357	149,638	281	2,855
2. 1997	145,813	149,128	148,097	147,601	147,747	147,882	148,347	148,732	150,147	150,377	230	1,645
3. 1998	X X X	159,714	158,022	157,426	157,756	157,137	157,645	159,859	161,511	161,659	148	1,800
4. 1999	X X X	X X X	159,323	161,992	163,428	165,865	167,276	169,319	170,652	171,636	984	2,317
5. 2000	X X X	X X X	X X X	154,982	161,730	164,018	167,136	166,621	167,791	169,194	1,403	2,573
6. 2001	X X X	X X X	X X X	X X X	160,301	158,468	160,855	163,479	163,344	164,333	989	854
7. 2002	X X X	X X X	X X X	X X X	X X X	188,094	192,329	191,794	190,039	190,990	951	(804)
8. 2003	X X X	X X X	X X X	X X X	X X X	X X X	193,266	189,103	186,981	188,861	1,880	(242)
9. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	242,448	234,252	233,924	(328)	(8,524)
10. 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	257,541	243,879	(13,662)	X X X
11. 2006	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	273,903	X X X	X X X
12. Totals											(7,124)	2,474

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 Number of Claims Closed With Loss Payment	12 Number of Claims Closed Without Loss Payment
	1	2	3	4	5	6	7	8	9	10		
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006		
1. Prior	000	60,240	83,140	96,158	105,630	111,704	114,942	116,985	120,789	124,215	X X X	X X X
2. 1997	68,604	104,704	121,495	131,760	137,880	140,967	142,889	144,130	144,549	145,142	X X X	X X X
3. 1998	X X X	74,468	112,861	131,043	140,880	146,980	150,575	153,113	154,447	156,380	X X X	X X X
4. 1999	X X X	X X X	77,607	118,373	137,337	149,574	155,977	161,433	164,021	166,026	X X X	X X X
5. 2000	X X X	X X X	X X X	75,887	118,549	137,733	149,120	155,738	159,757	162,885	X X X	X X X
6. 2001	X X X	X X X	X X X	X X X	75,154	116,031	133,292	145,524	150,335	154,806	X X X	X X X
7. 2002	X X X	X X X	X X X	X X X	X X X	73,321	119,532	142,895	159,966	168,257	X X X	X X X
8. 2003	X X X	X X X	X X X	X X X	X X X	X X X	84,709	129,062	150,846	164,286	X X X	X X X
9. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	83,818	135,947	159,701	X X X	X X X
10. 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	88,168	142,905	X X X	X X X
11. 2006	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	101,304	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
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. Prior	48,633	33,437	21,200	16,150	10,858	10,309	13,489	6,436	5,245	2,597
2. 1997	36,809	18,311	8,656	5,038	2,676	1,739	1,368	939	936	1,010
3. 1998	X X X	40,676	16,062	10,251	6,601	3,345	1,838	2,241	1,574	1,186
4. 1999	X X X	X X X	34,994	15,821	9,220	4,989	2,825	3,227	1,587	1,591
5. 2000	X X X	X X X	X X X	31,941	17,862	10,473	6,662	4,576	2,142	3,278
6. 2001	X X X	X X X	X X X	X X X	36,442	18,927	8,785	7,925	3,733	5,208
7. 2002	X X X	X X X	X X X	X X X	X X X	68,641	35,189	15,617	11,064	10,248
8. 2003	X X X	X X X	X X X	X X X	X X X	X X X	52,178	25,178	17,129	14,608
9. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	88,807	52,190	38,485
10. 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	101,483	52,295
11. 2006	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	98,690

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	YES	1,349,372	1,125,865	391,007	(2,142)	902,958	5,822	
4. Arkansas	AR	NO							
5. California	CA	YES	80,084,111	68,352,425	47,770,925	42,502,174	194,130,087	345,503	
6. Colorado	CO	NO							
7. Connecticut	CT	NO							
8. Delaware	DE	NO							
9. Dist. Columbia	DC	NO							
10. Florida	FL	NO							
11. Georgia	GA	NO							
12. Hawaii	HI	NO							
13. Idaho	ID	NO							
14. Illinois	IL	NO							
15. Indiana	IN	NO							
16. Iowa	IA	NO							
17. Kansas	KS	NO							
18. Kentucky	KY	NO							
19. Louisiana	LA	NO							
20. Maine	ME	NO							
21. Maryland	MD	NO							
22. Massachusetts	MA	NO							
23. Michigan	MI	NO							
24. Minnesota	MN	NO							
25. Mississippi	MS	NO							
26. Missouri	MO	NO							
27. Montana	MT	NO							
28. Nebraska	NE	NO							
29. Nevada	NV	NO							
30. New Hampshire	NH	NO							
31. New Jersey	NJ	NO							
32. New Mexico	NM	NO							
33. New York	NY	NO							
34. No. Carolina	NC	NO							
35. No. Dakota	ND	NO							
36. Ohio	OH	NO							
37. Oklahoma	OK	NO							
38. Oregon	OR	NO							
39. Pennsylvania	PA	NO							
40. Rhode Island	RI	NO							
41. So. Carolina	SC	NO							
42. So. Dakota	SD	NO							
43. Tennessee	TN	NO							
44. Texas	TX	NO							
45. Utah	UT	NO							
46. Vermont	VT	NO							
47. Virginia	VA	NO							
48. Washington	WA	NO							
49. West Virginia	WV	NO							
50. Wisconsin	WI	NO							
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. Northern Mariana Islands	MP	NO							
57. Canada	CN	NO							
58. Aggregate other alien	OT	X X X							
59. Totals	(a) 2		81,433,483	69,478,290	48,161,932	42,500,032	195,033,045	351,325	

DETAILS OF WRITE-INS									
5801.	X X X								
5802.	X X X								
5803.	X X X								
5898. Summary of remaining write-ins for Line 58 from overflow page	X X X								
5899. Totals (Lines 5801 through 5803 + 5898) (Line 58 above)	X X X								

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.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP
PART 1 - ORGANIZATIONAL CHART

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