

ANNUAL STATEMENT

OF THE

Peerless Indemnity Insurance Company

of _____

in the state of _____ **Lisle** _____

TO THE

Insurance Department

OF THE

STATE OF Illinois

FOR THE YEAR ENDED
December 31, 2006

PROPERTY AND CASUALTY

2006



18333200620100100

ANNUAL STATEMENT
For the Year Ended December 31, 2006
OF THE CONDITION AND AFFAIRS OF THE
Peerless Indemnity Insurance Company

NAIC Group Code 0111 0111 NAIC Company Code 18333 Employer's ID Number 13-2919779
(Current Period) (Prior Period)
Organized under the Laws of Illinois, State of Domicile or Port of Entry Illinois
Country of Domicile United States of America
Incorporated/Organized: April 30, 2002 Commenced Business: August 10, 2002
Statutory Home Office: 3333 Warrenville Road Lisle, IL 60532
Main Administrative Office: 3333 Warrenville Road Lisle, IL 60532 630-505-1442
Mail Address: 175 Berkeley Street Boston, MA 02117
Primary Location of Books and Records: 3333 Warrenville Road Lisle, IL 60532 630-505-1442
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: 3333 Warrenville Road Lisle, IL 60532 603-505-1442

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>	<u>Joy Switzer Carr #</u>	<u>Robert James Brautigam</u>
<u>Mark Ardon Butler</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>Gary Richard Gregg</u> (Printed Name) 1. <u>President and Chief Executive Officer</u> (Title)	<u>(Signature)</u> <u>Edmund Campion Kenealy</u> (Printed Name) 2. <u>Secretary</u> (Title)	<u>(Signature)</u> <u>James Francis Dore</u> (Printed Name) 3. <u>Treasurer and Chief Financial Officer</u> (Title)
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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)	142,712,059		142,712,059	282,132,053
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks	268,643		268,643	208,051,255
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 (\$ 12,733,259 , Schedule E-Part 1), cash equivalents (\$ 12,166,956 Schedule E-Part 2) and short-term investments (\$ 22,781,952 , Schedule DA)	47,682,167		47,682,167	24,148,477
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)	10,040,253		10,040,253	11,256,525
8. Receivables for securities	874		874	1,787
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	200,703,996		200,703,996	525,590,097
11. Title plants less \$ 0 charged off (for Title insurers only)				
12. Investment income due and accrued	1,615,900		1,615,900	3,001,783
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	739,972	15,199	724,773	16,800,254
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 97,240 earned but unbilled premiums)	18,252,859	9,353	18,243,506	2,326,579
13.3 Accrued retrospective premiums	38,295	3,829	34,466	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	12,277,585		12,277,585	12,509,434
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	7,298,675		7,298,675	33,342,799
16.2 Net deferred tax asset	922,000		922,000	1,409,658
17. Guaranty funds receivable or on deposit	16,526		16,526	15,986
18. Electronic data processing equipment and software				
19. Furniture and equipment, including health care delivery assets (\$ 0)				
20. Net adjustment in assets and liabilities due to foreign exchange rates				
21. Receivables from parent, subsidiaries and affiliates	4,066,406		4,066,406	38,060,059
22. Health care (\$ 0) and other amounts receivable				
23. Aggregate write-ins for other than invested assets	249,934	2,488	247,446	766,151
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	246,182,148	30,869	246,151,279	633,822,800
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	246,182,148	30,869	246,151,279	633,822,800

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	210,594	2,488	208,106	734,847
2302. Equities and deposits in pools and associations	39,340		39,340	31,304
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	249,934	2,488	247,446	766,151

LIABILITIES, SURPLUS AND OTHER FUNDS		
	1	2
	Current Year	Prior Year
1. Losses (Part 2A, Line 34, Column 8)	8,804,204	5,913,638
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	12,729,830	11,397,413
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	2,020,098	1,519,164
4. Commissions payable, contingent commissions and other similar charges	324,094	373,641
5. Other expenses (excluding taxes, licenses and fees)	250,568	149,683
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	172,124	99,910
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))		
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 \$ 124,068,706 and including warranty reserves of \$ 0)	4,743,232	4,233,774
10. Advance premium	19,093	12,777
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders	4,448	
12. Ceded reinsurance premiums payable (net of ceding commissions)	15,073,276	18,095,116
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	18,678	5,102
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	163	
19. Payable to parent, subsidiaries and affiliates	4,704,688	
20. Payable for securities		2,426
21. Liability for amounts held under uninsured plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	29,166,718	15,662,180
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	78,031,214	57,464,824
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	78,031,214	57,464,824
27. Aggregate write-ins for special surplus funds		
28. Common capital stock	3,500,000	3,500,000
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes		
32. Gross paid in and contributed surplus	150,454,419	150,454,419
33. Unassigned funds (surplus)	14,165,646	422,403,557
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)	168,120,065	576,357,976
36. TOTALS (Page 2, Line 26, Col. 3)	246,151,279	633,822,800

DETAILS OF WRITE-INS		
2301. Other liabilities	158,829	169,445
2302. Collateral on securities loaned	29,007,889	15,492,735
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page		
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	29,166,718	15,662,180
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)	10,281,615	8,655,426
DEDUCTIONS		
2. Losses incurred (Part 2, Line 34, Column 7)	5,581,236	4,270,288
3. Loss expenses incurred (Part 3, Line 25, Column 1)	1,228,345	1,138,818
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	3,440,720	3,108,172
5. Aggregate write-ins for underwriting deductions		
6. Total underwriting deductions (Lines 2 through 5)	10,250,301	8,517,278
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	31,314	138,148
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	18,556,628	25,861,854
10. Net realized capital gains (losses) less capital gains tax of \$ 13,168 (Exhibit of Capital Gains (Losses))	(119,731,833)	4,197,209
11. Net investment gain (loss) (Lines 9 + 10)	(101,175,205)	30,059,063
OTHER INCOME		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 0 amount charged off \$ 15,350)	(15,350)	(11,347)
13. Finance and service charges not included in premiums	14,295	14,438
14. Aggregate write-ins for miscellaneous income	19,511	(13,080)
15. Total other income (Lines 12 through 14)	18,456	(9,989)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(101,125,435)	30,187,222
17. Dividends to policyholders	29,064	14,299
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)	(101,154,499)	30,172,923
19. Federal and foreign income taxes incurred	(2,143,853)	(29,579,690)
20. Net income (Line 18 minus Line 19) (to Line 22)	(99,010,646)	59,752,613
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	576,357,976	544,638,895
22. Net income (from Line 20)	(99,010,646)	59,752,613
23. Net transfers (to) from Protected Cell accounts		
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ (259,840)	127,436,206	7,168,387
25. Change in net unrealized foreign exchange capital gain (loss)		
26. Change in net deferred income tax	(3,970,841)	(40,945,925)
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	3,239,547	10,326,234
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	(435,939,572)	
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	7,395	(4,582,228)
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	(408,237,911)	31,719,081
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)	168,120,065	576,357,976

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)	19,511	(13,080)
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)	19,511	(13,080)
3701. Other changes in surplus	7,395	(4,582,228)
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)	7,395	(4,582,228)

CASH FLOW

	1	2
	Current Year	Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance	7,914,613	(116,749,758)
2. Net investment income	20,067,126	31,568,551
3. Miscellaneous income	319,479	1,405,697
4. Total (Lines 1 through 3)	28,301,218	(83,775,510)
5. Benefit and loss related payments	1,126,241	470,304,875
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	4,044,579	156,923,516
8. Dividends paid to policyholders	24,616	14,299
9. Federal and foreign income taxes paid (recovered) \$ 0 net of tax on capital gains (losses)	(28,174,809)	6,905,538
10. Total (Lines 5 through 9)	(22,979,373)	634,148,228
11. Net cash from operations (Line 4 minus Line 10)	51,280,591	(717,923,738)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	249,413,504	1,082,977,133
12.2 Stocks	218,033,677	21,000,000
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets	1,190,882	6,286,320
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(5,279)	(4,342)
12.7 Miscellaneous proceeds	912	
12.8 Total investment proceeds (Lines 12.1 to 12.7)	468,633,696	1,110,259,111
13. Cost of investments acquired (long-term only):		
13.1 Bonds	110,511,176	478,256,892
13.2 Stocks	2,369,645	4,165,900
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets		
13.6 Miscellaneous applications	2,426	10,926,593
13.7 Total investments acquired (Lines 13.1 to 13.6)	112,883,247	493,349,385
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)	355,750,449	616,909,726
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		(2,426)
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders	435,939,571	
16.6 Other cash provided (applied)	52,442,221	38,937,115
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(383,497,350)	38,934,689
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)	23,533,690	(62,079,323)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	24,148,477	86,227,800
19.2 End of year (Line 18 plus Line 19.1)	47,682,167	24,148,477

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	104,743	50,085	53,226	101,602
2. Allied lines	89,874	44,361	45,927	88,308
3. Farmowners multiple peril	104,287	34,736	48,568	90,455
4. Homeowners multiple peril	818,321	386,621	428,600	776,342
5. Commercial multiple peril	3,368,577	1,418,868	1,571,072	3,216,373
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine	316,809	118,456	139,414	295,851
10. Financial guaranty				
11.1 Medical malpractice - occurrence				
11.2 Medical malpractice - claims-made				
12. Earthquake	38,498	15,545	19,611	34,432
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health				
16. Workers' compensation	2,080,555	469,860	580,700	1,969,715
17.1 Other liability - occurrence	619,100	233,287	278,460	573,927
17.2 Other liability - claims-made				
18.1 Products liability - occurrence	17,733	5,047	7,145	15,635
18.2 Products liability - claims-made				
19.1, 19.2 Private passenger auto liability	769,235	330,275	344,449	755,061
19.3, 19.4 Commercial auto liability	1,431,464	593,391	663,675	1,361,180
21. Auto physical damage	994,934	436,852	459,388	972,398
22. Aircraft (all perils)				
23. Fidelity	250	522	495	277
24. Surety	25,823	3,642	3,134	26,331
26. Burglary and theft	1,399	562	605	1,356
27. Boiler and machinery	2,387	1,509	1,523	2,373
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	10,783,989	4,143,619	4,645,992	10,281,616

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	53,226				53,226
2. Allied lines	45,927				45,927
3. Farmowners multiple peril	48,553	15			48,568
4. Homeowners multiple peril	428,600				428,600
5. Commercial multiple peril	1,607,799	313	(37,041)		1,571,071
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	139,374	40			139,414
10. Financial guaranty					
11.1 Medical malpractice - occurrence					
11.2 Medical malpractice - claims-made					
12. Earthquake	19,611				19,611
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	625,399		(44,699)		580,700
17.1 Other liability - occurrence	293,810	150	(15,500)		278,460
17.2 Other liability - claims-made					
18.1 Products liability - occurrence	7,145				7,145
18.2 Products liability - claims-made					
19.1, 19.2 Private passenger auto liability	344,449				344,449
19.3, 19.4 Commercial auto liability	663,489	186			663,675
21. Auto physical damage	459,338	50			459,388
22. Aircraft (all perils)					
23. Fidelity	244	251			495
24. Surety	2,572	563			3,135
26. Burglary and theft	604	1			605
27. Boiler and machinery	1,518	5			1,523
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	4,741,658	1,574	(97,240)		4,645,992
35. Accrued retrospective premiums based on experience					
36. Earned but unbilled premiums					97,240
37. Balance (Sum of Line 34 through 36)					4,743,232

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 Daily pro rata

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	543,948	1,765,225		2,204,430		104,743
2. Allied lines	955,985	1,645,202		2,511,313		89,874
3. Farmowners multiple peril		104,287				104,287
4. Homeowners multiple peril	3,232,401	25,190,915		27,604,995		818,321
5. Commercial multiple peril	16,909,768	52,865,894		66,407,086		3,368,576
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	451,051	1,791,990		1,926,232		316,809
10. Financial guaranty						
11.1 Medical malpractice - occurrence						
11.2 Medical malpractice - claims-made						
12. Earthquake	102,870	1,673,293		1,737,665		38,498
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	2,571,681	40,200,714		40,691,840		2,080,555
17.1 Other liability - occurrence	1,322,718	16,535,407		17,239,026		619,099
17.2 Other liability - claims-made						
18.1 Products liability - occurrence	106,983	167,808		257,058		17,733
18.2 Products liability - claims-made						
19.1, 19.2 Private passenger auto liability	4,799,718	45,050,850		49,081,333		769,235
19.3, 19.4 Commercial auto liability	4,217,957	17,274,345		20,060,838		1,431,464
21. Auto physical damage	5,027,450	30,957,602		34,990,117		994,935
22. Aircraft (all perils)						
23. Fidelity		250				250
24. Surety		25,823				25,823
26. Burglary and theft	3,013	15,087		16,701		1,399
27. Boiler and machinery	654	2,387		654		2,387
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	40,246,197	235,267,079		264,729,288		10,783,988

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	6	7	8
	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)	Net Losses Unpaid Current Year (Part 2A, Col. 8)	Net Losses Unpaid Prior Year	Losses Incurred Current Year (Cols. 4 + 5 - 6)	Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
1. Fire	286,362	3,070,693	3,327,737	29,318	20,616	9,909	40,025	39.394
2. Allied lines	5,902,489	614,304	6,465,057	51,736	11,435	32,034	31,137	35.260
3. Farmowners multiple peril		34,609		34,609	21,622	15,026	41,205	45.553
4. Homeowners multiple peril	494,380	16,733,157	16,771,093	456,444	184,282	156,837	483,889	62.329
5. Commercial multiple peril	5,007,652	25,335,554	29,160,257	1,182,949	2,274,704	1,892,408	1,565,245	48.665
6. Mortgage guaranty								
8. Ocean marine		771		771	61	(16,012)	16,844	
9. Inland marine	245,623	695,221	853,266	87,578	33,463	26,508	94,533	31.953
10. Financial guaranty								
11.1 Medical malpractice - occurrence								
11.2 Medical malpractice - claims - made								
12. Earthquake		(17)		(17)	17			
13. Group accident and health								
14. Credit accident and health (group and individual)								
15. Other accident and health								
16. Workers' compensation	776,341	11,272,323	12,762,353	(713,689)	3,517,519	1,447,250	1,356,580	68.872
17.1 Other liability - occurrence	66,898	5,532,088	5,509,738	89,248	685,025	465,666	308,607	53.771
17.2 Other liability - claims - made								
18.1 Products liability - occurrence		(903)		(903)	15,531	(4,054)	18,682	119.488
18.2 Products liability - claims - made								
19.1, 19.2 Private passenger auto liability	342,439	38,533,062	38,383,115	492,386	725,831	715,158	503,059	66.625
19.3, 19.4 Commercial auto liability	995,291	7,480,810	7,951,641	524,460	1,262,826	1,097,400	689,886	50.683
21. Auto physical damage	1,446,494	19,573,032	20,568,268	451,258	25,924	29,819	447,363	46.006
22. Aircraft (all perils)								
23. Fidelity		(39)		(39)	674	85	550	198.556
24. Surety		31,042	25,000	6,042	7,538	10,741	2,839	10.782
26. Burglary and theft		89		89	73	(161)	323	23.820
27. Boiler and machinery					481	18,168	(17,687)	(745.343)
28. Credit								
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X							
31. Reinsurance-Nonproportional Assumed Liability	X X X	(1,572)		(1,572)	16,582	16,856	(1,846)	
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X							
33. Aggregate write-ins for other lines of business								
34. TOTALS	15,563,969	128,904,224	141,777,525	2,690,668	8,804,204	5,913,638	5,581,234	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	9
		1	2	3	4	5	6	7	Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	Unpaid Loss Adjustment Expenses
		Direct	Reinsurance Assumed	Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	Direct	Reinsurance Assumed	Reinsurance Ceded		
1.	Fire	404,299	3,524,886	3,910,180	19,005	12,783	4,180	15,352	20,616	1,402
2.	Allied lines	678,588	80,635	749,197	10,026	23,026	4,471	26,088	11,435	1,721
3.	Farmowners multiple peril		18,793		18,793		2,829		21,622	3,954
4.	Homeowners multiple peril	698,847	3,912,969	4,474,044	137,772	133,664	418,466	505,620	184,282	34,958
5.	Commercial multiple peril	3,121,120	23,120,658	24,919,636	1,322,142	1,436,375	16,056,631	16,540,444	2,274,704	968,407
6.	Mortgage guaranty									
8.	Ocean marine						61		61	10
9.	Inland marine	230,255	189,834	396,762	23,327	8,095	13,080	11,039	33,463	6,198
10.	Financial guaranty									
11.1	Medical malpractice - occurrence									
11.2	Medical malpractice - claims - made									
12.	Earthquake		17		17				17	66
13.	Group accident and health								(a)	7
14.	Credit accident and health (group and individual)									
15.	Other accident and health								(a)	1
16.	Workers' compensation	2,570,224	24,725,037	25,275,928	2,019,333	2,015,235	11,137,106	11,654,155	3,517,519	458,726
17.1	Other liability - occurrence	420,046	2,408,052	2,628,130	199,968	2,864,986	14,668,415	17,048,344	685,025	150,118
17.2	Other liability - claims - made									
18.1	Products liability - occurrence	13,399	3,321	13,399	3,321	105,877	81,552	175,219	15,531	5,386
18.2	Products liability - claims - made									
19.1, 19.2	Private passenger auto liability	453,062	32,089,231	32,036,942	505,351	352,841	14,745,178	14,877,539	725,831	153,306
19.3, 19.4	Commercial auto liability	1,460,515	4,651,172	5,459,303	652,384	1,336,032	7,945,400	8,670,990	1,262,826	225,728
21.	Auto physical damage	77,964	969,821	1,020,609	27,176		(1,252)		25,924	8,406
22.	Aircraft (all perils)									
23.	Fidelity		75		75		599		674	84
24.	Surety		8,305	3,900	4,405		602,611	599,478	7,538	1,324
26.	Burglary and theft		37		37		58	22	73	371
27.	Boiler and machinery						481		481	(76)
28.	Credit									
29.	International									
30.	Reinsurance-Nonproportional Assumed Property	X X X				X X X				
31.	Reinsurance-Nonproportional Assumed Liability	X X X	1,975		1,975	X X X	4,883,651	4,869,044	16,582	
32.	Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
33.	Aggregate write-ins for other lines of business									
34.	TOTALS	10,128,319	95,704,818	100,888,030	4,945,107	8,288,914	70,563,517	74,993,334	8,804,204	2,020,097

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	1,910,798			1,910,798
1.2 Reinsurance assumed	10,565,955			10,565,955
1.3 Reinsurance ceded	12,001,764			12,001,764
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	474,989			474,989
2. Commission and brokerage:				
2.1 Direct, excluding contingent		6,145,269		6,145,269
2.2 Reinsurance assumed, excluding contingent		31,626,670		31,626,670
2.3 Reinsurance ceded, excluding contingent		36,334,925		36,334,925
2.4 Contingent-direct				
2.5 Contingent-reinsurance assumed		384,446		384,446
2.6 Contingent-reinsurance ceded		103,670		103,670
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)		1,717,790		1,717,790
3. Allowances to manager and agents	8	3,737		3,745
4. Advertising	7,154	28,156	418	35,728
5. Boards, bureaus and associations	3,109	24,853	14	27,976
6. Surveys and underwriting reports		31,024		31,024
7. Audit of assureds' records		186		186
8. Salary and related items:				
8.1 Salaries	296,120	723,366	98,960	1,118,446
8.2 Payroll taxes	21,572	54,970	4,290	80,832
9. Employee relations and welfare	79,307	194,007	4,293	277,607
10. Insurance	63,925	6,274	333	70,532
11. Directors' fees	3	56		59
12. Travel and travel items	17,113	61,541	3,288	81,942
13. Rent and rent items	28,617	78,083	1,403	108,103
14. Equipment	19,659	48,836	1,544	70,039
15. Cost or depreciation of EDP equipment and software	38,659	44,403	809	83,871
16. Printing and stationery	5,725	15,113	220	21,058
17. Postage, telephone and telegraph, exchange and express	12,539	38,909	489	51,937
18. Legal and auditing	2,728	12,819	9,406	24,953
19. Totals (Lines 3 to 18)	596,238	1,366,333	125,467	2,088,038
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 3,398		229,168		229,168
20.2 Insurance department licenses and fees		6,834		6,834
20.3 Gross guaranty association assessments		420		420
20.4 All other (excluding federal and foreign income and real estate)		31,980		31,980
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		268,402		268,402
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	157,119	88,195	14,653	259,967
25. Total expenses incurred	1,228,346	3,440,720	140,120 (a)	4,809,186
26. Less unpaid expenses-current year	2,020,098	746,785		2,766,883
27. Add unpaid expenses-prior year	1,519,164	623,234		2,142,398
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)	727,412	3,317,169	140,120	4,184,701

DETAILS OF WRITE-INS				
2401. Change in unallocated expense reserves	105,460			105,460
2402. Other expenses	51,659	88,195	14,653	154,507
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	157,119	88,195	14,653	259,967

(a) Includes management fees of \$ 140,120 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) 4,710,395	4,334,995
1.1 Bonds exempt from U.S. tax	(a) 1,673,255	1,596,642
1.2 Other bonds (unaffiliated)	(a) 9,856,851	8,776,962
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	2,144,987	2,144,987
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) 1,418,335	1,564,357
7. Derivative instruments	(f)	
8. Other invested assets	68,468	68,468
9. Aggregate write-ins for investment income	207,912	207,912
10. Total gross investment income	20,080,203	18,694,323
11. Investment expenses		(g) 137,694
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i)
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		137,694
17. Net investment income (Line 10 minus Line 16)		18,556,629
DETAILS OF WRITE-INS		
0901. Miscellaneous Income/ (Expense)	207,912	207,912
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)	207,912	207,912
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 \$ 231,723 accrual of discount less \$ 354,674 amortization of premium and less \$ 330,905 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 \$ 73,200 accrual of discount less \$ 0 amortization of premium and less \$ 87,788 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	(241,116)			(241,116)
1.1 Bonds exempt from U.S. tax	649,943			649,943
1.2 Other bonds (unaffiliated)	(834,764)		31,222	(803,542)
1.3 Bonds of affiliates				
2.1 Preferred stocks (unaffiliated)				
2.11 Preferred stocks of affiliates				
2.2 Common stocks (unaffiliated)	492,563		(773,623)	(281,060)
2.21 Common stocks of affiliates	(119,756,287)		127,918,767	8,162,480
3. Mortgage loans				
4. Real estate				
5. Contract loans				
6. Cash, cash equivalents and short-term investments	(5,279)			(5,279)
7. Derivative instruments				
8. Other invested assets	(23,725)			(23,725)
9. Aggregate write-ins for capital gains (losses)				
10. Total capital gains (losses)	(119,718,665)		127,176,366	7,457,701

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

EXHIBIT OF NONADMITTED ASSETS

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks			
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA)			
6. Contract loans			
7. Other invested assets (Schedule BA)			
8. Receivables for securities			
9. Aggregate write-ins for invested assets			
10. Subtotals, cash and invested assets (Lines 1 to 9)			
11. Title plants (for Title insurers only)			
12. Investment income due and accrued			
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	15,199	34,895	19,696
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,353	8,461	(892)
13.3 Accrued retrospective premiums	3,829		(3,829)
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		3,223,342	3,223,342
17. Guaranty funds receivable or on deposit			
18. Electronic data processing equipment and software			
19. Furniture and equipment, including health care delivery assets			
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	2,488	3,718	1,230
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	30,869	3,270,416	3,239,547
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	30,869	3,270,416	3,239,547

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	2,488	3,718	1,230
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)	2,488	3,718	1,230

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 Illinois Insurance Commissioner, the accompanying financial statements of Peerless Indemnity Insurance Company (the “Company”) have been prepared in conformity with the National Association of Insurance Commissioners (“NAIC”) *Accounting Practices and Procedures Manual* (“APP Manual”).

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

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

C. Accounting Policies

Premiums are earned over the terms of the related policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro-rata methods. 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.
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 does not own any subsidiaries, controlled, or affiliated entities.
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.

C. Impairment Loss

NOTES TO FINANCIAL STATEMENTS

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. The 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.

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	7,217,000	12,299,000	(5,082,000)
Total of deferred tax liabilities	(6,295,000)	(7,666,000)	1,371,000
Net deferred tax asset	922,000	4,633,000	(3,711,000)
Net deferred tax asset non-admitted	0	(3,223,342)	3,223,342
Net admitted deferred tax asset	922,000	1,409,658	(487,658)

B. The Company does not have any deferred tax liabilities described in SSAP No. 10, Income Taxes, paragraph 6d.

NOTES TO FINANCIAL STATEMENTS

C. The provisions for incurred taxes on earnings for the years ended December 31 are:

	2006	2005
Federal tax on operations	(2,143,853)	(29,579,690)
Net operating loss benefit	0	0
Foreign tax on operations	0	0
Income tax incurred on operations	(2,143,853)	(29,579,690)
Tax on capital gains	13,168	2,260,036
Total income tax incurred	(2,130,685)	(27,319,654)

The Company’s deferred tax assets and liabilities result primarily from discounting of unpaid loss and LAE reserves, unrealized gains, limits on unearned premium reserve deductions, nondeductible accrued expenses, guaranty assessment adjustments, 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)	(3,970,841)
Tax effect of unrealized (gains) losses	259,841
Total change in net deferred income tax	(3,711,000)

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

The Company had 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
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

NOTES TO FINANCIAL STATEMENTS

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 outstanding shares in the Company are owned by Liberty-USA Corporation, an insurance holding company incorporated in the State of Delaware. The outstanding shares of Liberty-USA are owned by Peerless Insurance Company (“PIC”), a New Hampshire company. PIC is a wholly owned subsidiary of LIH US P&C Corporation, an insurance holding company incorporated in Delaware. LIH US P&C is wholly owned by Liberty Mutual Insurance Holdings, Inc., an insurance holding company incorporated in Delaware. Liberty Mutual Insurance Holdings, Inc. is wholly owned by Liberty Mutual Insurance Company (“LMIC”), a Massachusetts company. The ultimate parent of LMIC is wholly owned by Liberty Mutual Group, Inc., a Massachusetts company.

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 \$ 59,752,613 to its parent, PIC, through an affiliated upstream intermediary non-insurance company. The Company also paid its parent, pursuant to the approval of its domiciliary state, an extraordinary dividend of \$ 376,186,959.

C. Refer to Note 26.

D. At December 31, 2006, the Company reported \$638,282 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. The Company entered into a services agreement (the “Agreement”), effective January 1, 1999, with PIC and other affiliates. The Agreement allows parties to the Agreement to provide services related to common management functions including, but not limited to, coordinating marketing and advertising, information systems support, payroll and human resources services, actuarial support, accounting and other financial services, as well as consulting and other services as the parties may request.

The Company entered into investment management agreements, effective May 26, 1999 with 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 is party to a Federal Tax Sharing Agreement, effective January 1, 2002, between LMIC and affiliates (see Note 9F).

The Company entered into a management services agreement, effective December 15, 2001, with 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 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 \$100,000,000 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.

G. The Company is part of a holding company structure as illustrated in Schedule Y Part 1.

H. The Company does not own shares of an upstream company, either directly or indirectly.

I. The Company has no investments in subsidiary, controlled or affiliated companies.

J. Impairment of Subsidiaries

Not applicable.

K. The Company does not hold investments in foreign subsidiaries.

Note 11- Debt

Not applicable.

NOTES TO FINANCIAL STATEMENTS

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 agreements as described in note 10 F.

Note 13- Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations

1. Capital Stock
- The Company has 10,000 shares authorized, issued, and outstanding as of December 31, 2006. All shares have a stated par value of \$350.
2. Preferred Stock
- Not applicable
3. Dividend Restrictions
- There are no dividend restrictions.
4. The maximum amount of dividends which can be paid by Illinois-domiciled insurance companies to shareholders without prior approval of the Insurance Commissioner is the greater of (a) 10% of policyholders’ surplus, or (b) net income. The maximum dividend payout which may be made without prior approval in 2007 is \$16,812,006.
5. The Company does not have restricted unassigned surplus.
6. The Company had no advances to surplus.
7. The Company did not hold stock for special purposes.
8. The Company had no changes in special surplus funds.
9. The portion of unassigned funds (surplus) represented by cumulative unrealized gains and (losses) is \$6,036.
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 funds and other assessments by the states in which it writes business. Guaranty funds assessments are accrued at the time of insolvencies. Other assessments are accrued either at the time of assessments or in the case of premium based assessments, at the time the premiums are written, or, in the case of loss based assessments, at the time the losses are incurred.
- The Company has accrued a liability for guaranty funds and other assessments of \$63,031 that is offset by future premium tax credits of \$16,526. 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.
- 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.

NOTES TO FINANCIAL STATEMENTS

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. Aside from certain sale-leaseback transactions disclosed below, the Company is not involved in material lease arrangements.
- The Company’s minimum lease obligations under these agreements are as follows:

Year(s)	Operating Lease Arrangements
2006	\$36,603
2007	35,566
2008	25,771
2009	21,291
2010	20,438
2011 & thereafter	75,581
Total	<u>\$215,250</u>

- B. Leasing as a significant part of lessor’s business activities
- Not applicable

Note 16- Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk

The Company is not exposed to financial instruments with off-balance sheet risk or 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 \$38,480,395 with corresponding collateral value of \$39,365,526 of which \$29,007,888 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
- Not applicable

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

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

Note 20 – September 11 Events

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

NOTES TO FINANCIAL STATEMENTS

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 \$5,715,414 and \$5,576,379 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 does not hold hybrid securities.
- 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. The Company did not have any Assumed & Ceded Reinsurance

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.

	Assumed Reinsurance		Ceded Reinsurance		Net Reinsurance	
	UEP	Commission Equity	UEP	Commission Equity	UEP	Commission Equity
Affiliates	\$104,576,883	\$14,250,118	\$124,068,706	\$30,890,603	(\$19,491,823)	(\$16,640,485)
All Other	0	0	0	0	0	0
Total	<u>\$104,576,883</u>	<u>\$14,250,118</u>	<u>\$124,068,706</u>	<u>\$30,890,603</u>	<u>(\$19,491,823)</u>	<u>(\$16,640,485)</u>

Direct unearned premium reserve of \$24,235,055

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:

Direct	\$0
Assumed	954,617
Ceded	(653,307)
Net	<u>\$301,310</u>

- D. The Company did not write off any uncollectible balances in 2006.
- E. The Company does not have ceded commutations.
- F. The Company does not have any retroactive reinsurance agreements.
- G. The Company has not entered into any deposit type reinsurance agreements as of December 31, 2006.

NOTES TO FINANCIAL STATEMENTS

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.
- A.

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

\$38,295

b. Less: Non-admitted amount (10%)

3,829

c. Admitted amount

\$34,466

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.
- (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 and have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.
- (f)

There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the Lead Company and corresponding entries on the assumed and ceded reinsurance schedules of
- 1 4 . 7

NOTES TO FINANCIAL STATEMENTS

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 \$167,740 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 \$167,740 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 any high deductible policies.

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

For Workers Compensation, the Company discounts its reserves for unpaid losses using a tabular discount on the long-term annuity portion of certain workers compensation claims. The tabular discount is based on Unit Statistical Plan tables as approved by the respective states at an annual discount rate of 3.5%. The December 31, 2006 liabilities of \$3,628,092 are carried at a discounted value of \$3,517,519 representing a discount of \$110,573.

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 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

NOTES TO FINANCIAL STATEMENTS

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 Inter-Company Reinsurance Agreement as discussed in Note 26.

<u>Asbestos:</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct Basis					
Beginning Reserves	33,628	45,624	51,719	54,259	54,032
Incurred losses and LAE	17,250	10,318	9,698	7,235	9,917
Calendar year payments	5,254	4,223	7,158	7,462	4,087
Ending Reserves	45,624	51,719	54,259	54,032	59,862
Assumed Reinsurance Basis					
Beginning Reserves	6,006	4,013	2,846	903	903
Incurred losses and LAE	-	-	-	-	-
Calendar year payments	1,993	1,167	1,943	-	-
Ending Reserves	4,013	2,846	903	903	903
Net of Ceded Reinsurance Basis					
Beginning Reserves	31,926	37,964	47,195	43,122	41,476
Incurred losses and LAE	12,150	14,621	3,578	5,816	8,117
Calendar year payments	6,112	5,390	7,651	7,462	2,287
Ending Reserves	37,964	47,195	43,122	41,476	47,306
Ending Reserves for Bulk + IBNR included above (Loss & LAE)					
Direct Basis					43,336
Assumed Reinsurance Basis					903
Net of Ceded Reinsurance Basis					35,078
Ending Reserves for LAE included above (Case, Bulk & IBNR)					
Direct Basis					11,549
Assumed Reinsurance Basis					-
Net of Ceded Reinsurance Basis					10,078
<u>Environmental:</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct Basis					
Beginning Reserves	63,154	39,696	38,973	41,874	52,605
Incurred losses and LAE	1,508	2,231	8,968	25,552	8,846
Calendar year payments	24,966	2,954	6,067	14,821	22,704
Ending Reserves	39,696	38,973	41,874	52,605	38,747
Assumed Reinsurance Basis					
Beginning Reserves	1,966	2,258	16,816	15,597	15,954
Incurred losses and LAE	-	15,000	-	413	1,050
Calendar year payments	(292)	442	1,219	56	2,448
Ending Reserves	2,258	16,816	15,597	15,954	14,556
Net of Ceded Reinsurance Basis					
Beginning Reserves	55,258	31,368	52,391	43,891	42,771
Incurred losses and LAE	-	23,454	581	12,996	4,119
Calendar year payments	23,890	2,431	9,081	14,116	20,650
Ending Reserves	31,368	52,391	43,891	42,771	26,240
Ending Reserves for Bulk + IBNR included above (Loss & LAE)					
Direct Basis					9,306
Assumed Reinsurance Basis					14,516
Net of Ceded Reinsurance Basis					14,133
Ending Reserves for LAE included above (Case, Bulk & IBNR)					
Direct Basis					8,219
Assumed Reinsurance Basis					-
Net of Ceded Reinsurance Basis					6,421

NOTES TO FINANCIAL STATEMENTS

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	40,125,096	19.992	40,125,096	19.992
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	19,741,834	9.836	19,741,834	9.836
1.22 Issued by U.S. government sponsored agencies	5,033,034	2.508	5,033,034	2.508
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	7,978,765	3.975	7,978,765	3.975
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	13,040,501	6.497	13,040,501	6.497
1.43 Revenue and assessment obligations	9,889,305	4.927	9,889,305	4.927
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	2,768,280	1.379	2,768,280	1.379
1.512 Issued or guaranteed by FNMA and FHLMC	23,243,382	11.581	23,243,382	11.581
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	1,931,911	0.963	1,931,911	0.963
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	1,453,188	0.724	1,453,188	0.724
1.523 All other	3,106,208	1.548	3,106,208	1.548
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	14,400,555	7.175	14,400,555	7.175
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	268,643	0.134	268,643	0.134
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				
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	874		874	
8. Cash, cash equivalents and short-term investments	47,682,167	23.757	47,682,167	23.757
9. Other invested assets	10,040,253	5.003	10,040,253	5.003
10. Total invested assets	200,703,996	100.000	200,703,996	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 ☒ 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 ☒ No ☐ N/A ☐
- 1.3

State Regulating?

Illinois
- 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 ☒
- 2.2

If yes, date of change:
- 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).

06/29/2006
- 3.4

By what department or departments? Illinois Department of Financial and Professional Regulation Division 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 ☒

4.12

renewals?

Yes ☐ No ☒
- 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 ☒

4.22

renewals?

Yes ☐ No ☒
- 5.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes ☐ No ☒
- 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	2	3
Name of Entity	NAIC Company Code	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 ☒
- 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 ☒
- 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	2
Nationality	Type of Entity

- 8.1

Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes ☐ No ☒
- 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
11.13 Total book/adjusted carrying value

\$

- 11.2 If yes, provide explanation

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

- 12.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?
- 12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

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

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

Yes [] No [] N/A [X]

BOARD OF DIRECTORS

13. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof?

Yes [] 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
16.12 To stockholders not officers
16.13 Trustees, supreme or grand (Fraternal only)

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

16.21 To directors or other officers
16.22 To stockholders not officers
16.23 Trustees, supreme or grand (Fraternal only)

\$
\$
\$
- 17.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

Yes [] No [X]
- 17.2 If yes, state the amount thereof at December 31 of the current year:

17.21 Rented from others
17.22 Borrowed from others
17.23 Leased from others
17.24 Other

\$
\$
\$
\$
- 18.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes [] No [X]
- 18.2 If answer is yes:

18.21 Amount paid as losses or risk adjustment
18.22 Amount paid as expenses
18.23 Other amounts paid

\$
\$
\$

- 19.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes [X] No []

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

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

\$

INVESTMENT

20.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits?

Yes [X] No []

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

21.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E - Part 3 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 17.1).

Yes [X] No []

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

21.21 Loaned to others

21.22 Subject to repurchase agreements

21.23 Subject to reverse repurchase agreements

21.24 Subject to dollar repurchase agreements

21.25 Subject to reverse dollar repurchase agreements

21.26 Pledged as collateral

21.27 Placed under option agreements

21.28 Letter stock or securities restricted as to sale

21.29 Other

\$

38,480,396

\$

\$

\$

\$

\$

\$

\$

21.3 For category (21.28) provide the following:

1	2	3
Nature of Restriction	Description	Amount

22.1 Does the reporting entity have any hedging transactions reported on Schedule DB?

Yes [] No [X]

22.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?

Yes [] No [] N/A [X]

If no, attach a description with this statement.

23.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?

Yes [] No [X]

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

\$

24. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H-Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook?

Yes [X] No []

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

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

24.03 Have there been any changes, including name changes, in the custodian(s) identified in 24.01 during the current year?

Yes [] No [X]

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

1	2	3	4
Old Custodian	New Custodian	Date of Change	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	2	3
Central Registration Depository Number(s)	Name	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	2	3
CUSIP#	Name of Mutual Fund	Book/Adjusted Carrying Value
42982#100	LMIA HIGH YIELD FUND	268,643
25.2999	Total	268,643

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

1	2	3	4
Name of Mutual Fund (from above table)	Name of Significant Holding of the Mutual Fund	Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	Date of Valuation
LMIA HIGH YIELD FUND	VENTAS REALTY LP/CAP CRP	5,815	12/29/2006
LMIA HIGH YIELD FUND	JP MORGAN PRIME MONEY MARKET FUND	5,512	12/29/2006
LMIA HIGH YIELD FUND	CHESAPEAKE ENERGY CORP	5,477	12/29/2006
LMIA HIGH YIELD FUND	WILLIAMS PARTNERS LP/WIL	4,822	12/29/2006
LMIA HIGH YIELD FUND	SENIOR HOUSING PROP	4,480	12/29/2006

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	2	3
	Statement (Admitted) Value	Fair Value	Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
26.1 Bonds	165,494,012	165,210,303	(283,709)
26.2 Preferred stocks			
26.3 Totals	165,494,012	165,210,303	(283,709)

- 26.4 Describe the sources or methods utilized in determining the fair values: SVO, FTID CORP, BLOOMBERG, 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?
- \$ _____
- 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	2
Name	Amount Paid
	\$
	\$
	\$

- 29.1 Amount of payments for legal expenses, if any?
- \$ _____ 40
- 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	2
Name	Amount Paid
IL STATE TREAS STATE OF IL	\$ 40
	\$
	\$

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

1	2
Name	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

Current Year

2

Prior Year

2.1

Premium Numerator

\$

2.2

Premium Denominator

\$ 10,281,615

2.3

Premium Ratio (2.1/2.2)

2.4

Reserve Numerator

\$ 8

2.5

Reserve Denominator

\$ 28,297,363

2.6

Reserve Ratio (2.4/2.5)

3.1

Does the reporting entity issue both participating and non-participating policies?

YES [X] NO []

3.2

If yes, state the amount of calendar year premiums written on:

3.21

Participating policies

\$ 270,542

3.22

Non-participating policies

\$ 39,975,655

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

17

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 Interrogatroy 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	\$	159,316
-------	---------------	----	---------

12.12	Unpaid underwriting expenses (including loss adjustment expenses)	\$	17,778
-------	---	----	--------

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? \$ 7,725

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 <input type="checkbox"/> NO <input checked="" type="checkbox"/>
------	--	---

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):	\$ 57,525
--	-----------

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?

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.

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 ☒

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.

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

YES [] NO [X]

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\$

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

\$

\$

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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)	132,248,181	(16,679,210)	433,769,407	361,446,850	309,667,446
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	44,932,716	(10,075,742)	194,247,226	194,013,669	170,898,045
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	98,306,306	(66,189,017)	422,319,164	326,867,898	242,017,324
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	26,073	(503,935)	558,844	533,084	2,242,830
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)				(2,997)	
6. Total (Line 34)	275,513,276	(93,447,904)	1,050,894,641	882,858,504	724,825,645
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)	4,918,086	(136,852,905)	318,877,107	254,861,754	222,383,514
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	1,546,258	(60,492,797)	134,035,310	118,009,353	104,462,382
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	4,293,571	(153,358,567)	332,623,048	245,712,694	191,475,463
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	26,073	(503,935)	558,604	536,437	1,740,721
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)				(2,997)	
12. Total (Line 34)	10,783,988	(351,208,204)	786,094,069	619,117,241	520,062,080
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	31,314	138,148	297,672	33,058,506	(45,902,128)
14. Net investment gain (loss) (Line 11)	(101,175,205)	30,059,063	60,521,658	47,606,390	51,847,081
15. Total other income (Line 15)	18,456	(9,989)	424,439	(3,024,454)	(2,005,655)
16. Dividends to policyholders (Line 17)	29,064	14,299	989,128	1,065,735	1,175,234
17. Federal and foreign income taxes incurred (Line 19)	(2,143,853)	(29,579,690)	26,466,565	24,190,481	8,087,304
18. Net income (Line 20)	(99,010,646)	59,752,613	33,788,076	52,384,226	(5,323,240)
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	246,151,279	633,822,800	1,579,863,464	1,412,478,410	1,164,308,809
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	724,773	16,800,254	35,438,356	87,292,713	23,899,924
20.2 Deferred and not yet due (Line 13.2)	18,243,506	2,326,579	204,088,595	176,953,923	135,663,741
20.3 Accrued retrospective premiums (Line 13.3)	34,466			4,649,318	
21. Total liabilities excluding protected cell business (Page 3, Line 24)	78,031,214	57,464,824	1,035,224,569	907,623,786	754,751,249
22. Losses (Page 3, Line 1)	8,804,204	17,311,051	480,141,800	375,434,290	351,004,313
23. Loss adjustment expenses (Page 3, Line 3)	2,020,098	1,519,164	112,881,875	74,691,839	75,029,282
24. Unearned premiums (Page 3, Line 9)	4,743,232	4,233,774	370,838,037	302,045,922	249,436,849
25. Capital paid up (Page 3, Lines 28 & 29)	3,500,000	3,500,000	3,500,000	3,500,000	1,000,000
26. Surplus as regards policyholders (Page 3, Line 35)	168,120,065	576,357,976	544,638,895	504,854,624	409,557,560
Risk-Based Capital Analysis					
27. Total adjusted capital	168,120,065	576,357,976	544,638,895	504,854,624	409,557,560
28. Authorized control level risk-based capital	1,657,658	23,497,486	76,414,645	57,728,331	43,198,177
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)	71.1	53.7	73.1	70.5	69.5
30. Stocks (Lines 2.1 & 2.2)	0.1	39.6	18.0	19.4	17.7
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)	23.8	4.6	7.2	8.4	11.6
34. Contract loans (Line 6)					XXX
35. Other invested assets (Line 7)	5.0	2.1	1.4	1.6	1.2
36. Receivables for securities (Line 8)			0.2	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)		172,510,092	163,174,217	159,759,684	100,911,945
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		10,000,000	10,000,000	10,000,000	10,000,000
45. Total of above Lines 39 to 44		182,510,092	173,174,217	169,759,684	110,911,945
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)		31.7	30.0	31.6	24.7

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)	127,436,206	7,168,387	4,280,301	13,023,737	(9,313,987)
48. Dividends to stockholders (Line 35)	(435,939,572)			(2,000,000)	
49. Change in surplus as regards policyholders for the year (Line 38)	(408,237,911)	31,719,081	39,784,271	95,297,064	15,128,957
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)	64,998,349	365,714,639	165,399,046	179,026,173	186,410,793
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	31,834,290	36,568,497	80,796,723	84,897,347	78,967,042
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	47,606,123	197,952,775	128,868,533	124,970,814	113,212,243
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	31,003	364,469	376,774	867,675	2,753,303
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(1,572)	1,520,420		198,048	
55. Total (Line 34)	144,468,193	602,120,800	375,441,076	389,960,057	381,343,381
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)	391,502	301,037,226	112,424,543	113,840,721	108,371,034
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	619,962	7,283,979	49,292,244	49,760,756	44,537,222
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,674,773	159,032,548	85,221,860	89,838,524	73,475,891
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	6,003	317,277	121,829	196,187	1,081,062
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(1,572)	1,520,420		198,048	
61. Total (Line 34)	2,690,668	469,191,450	247,060,476	253,834,236	227,465,209
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	51.3	64.9
64. Loss expenses incurred (Line 3)	11.9	13.2	12.9	8.0	12.8
65. Other underwriting expenses incurred (Line 4)	33.5	35.9	33.8	34.7	32.1
66. Net underwriting gain (loss) (Line 8)	0.3	1.6		5.8	(9.8)
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)	31.7	(0.9)	30.6	32.5	29.3
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	59.3	77.7
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)	6.4	(60.9)	144.3	122.6	127.0
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)	(162)	(188)	6,502	(1,698)	22,653
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)	(0.0)	(0.0)	1.3	(0.4)	5.7
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)	57	(57)	30,823	311,650,360	25,039
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)		(0.0)	7.5	6.8	6.7

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 Governments (Including all obligations guaranteed by governments)	1. United States	67,668,239	67,104,575	67,748,733	67,039,239
	2. Canada				
	3. Other Countries				
	4. Totals	67,668,239	67,104,575	67,748,733	67,039,239
States, Territories and Possessions (Direct and guaranteed)	5. United States	7,978,765	8,044,900	7,978,110	8,000,000
	6. Canada				
	7. Other Countries				
	8. Totals	7,978,765	8,044,900	7,978,110	8,000,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States	13,040,502	13,096,183	13,039,217	13,115,000
	10. Canada				
	11. Other Countries				
	12. Totals	13,040,502	13,096,183	13,039,217	13,115,000
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States	35,064,600	35,321,214	35,067,305	35,217,996
	14. Canada				
	15. Other Countries				
	16. Totals	35,064,600	35,321,214	35,067,305	35,217,996
Public Utilities (unaffiliated)	17. United States	981,219	986,700	979,890	1,000,000
	18. Canada				
	19. Other Countries				
	20. Totals	981,219	986,700	979,890	1,000,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States	17,978,734	17,874,778	18,014,555	17,889,790
	22. Canada				
	23. Other Countries				
	24. Totals	17,978,734	17,874,778	18,014,555	17,889,790
Parent, Subsidiaries and Affiliates	25. Totals				
	26. Total Bonds	142,712,059	142,428,350	142,827,810	142,262,025
PREFERRED STOCKS Public Utilities (unaffiliated)	27. United States				
	28. Canada				
	29. Other Countries				
	30. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	31. United States				
	32. Canada				
	33. Other Countries				
	34. Totals				
Industrial and Miscellaneous (unaffiliated)	35. United States				
	36. Canada				
	37. Other Countries				
	38. Totals				
Parent, Subsidiaries and Affiliates	39. Totals				
	40. Total Preferred Stocks				
COMMON STOCKS Public Utilities (unaffiliated)	41. United States				
	42. Canada				
	43. Other Countries				
	44. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	45. United States				
	46. Canada				
	47. Other Countries				
	48. Totals				
Industrial and Miscellaneous (unaffiliated)	49. United States	268,643	268,643	262,607	
	50. Canada				
	51. Other Countries				
	52. Totals	268,643	268,643	262,607	
Parent, Subsidiaries and Affiliates	53. Totals				
	54. Total Common Stocks	268,643	268,643	262,607	
	55. Total Stocks	268,643	268,643	262,607	
	56. Total Bonds and Stocks	142,980,702	142,696,993	143,090,417	

SCHEDULE D - VERIFICATION BETWEEN YEARS
Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year	490,183,309	7. Amortization of premium	354,671
2. Cost of bonds and stocks acquired, Column 7, Part 3	112,880,821	8. Foreign Exchange Adjustment:	
3. Accrual of discount	231,722	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		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	6,035	9. Book/adjusted carrying value at end of current period	142,980,702
4.4 Column 11 - 13, Part 4	127,170,329	10. Total valuation allowance	
5. Total gain (loss), Column 19, Part 4	(119,689,662)	11. Subtotal (Lines 9 plus 10)	142,980,702
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4	467,447,181	12. Total nonadmitted amounts	
		13. Statement value of bonds and stocks, current period	142,980,702

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
	1	2	3	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	Number of Claims Reported - Direct and Assumed
				4	5	6	7	8	9			
	Direct and Assumed	Ceded	Net (Cols. 1 - 2)	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
1. Prior	X X X	X X X	X X X	85	19	14	3	3	1	1	79	X X X
2. 1997	5,718	903	4,815	3,664	631	297	43	411	61	144	3,637	X X X
3. 1998	6,543	1,197	5,346	4,358	1,083	334	68	532	126	147	3,947	X X X
4. 1999	6,064	894	5,170	4,265	769	310	48	523	94	145	4,187	X X X
5. 2000	5,763	714	5,049	4,047	630	300	29	465	55	135	4,098	X X X
6. 2001	6,185	838	5,347	3,847	622	303	22	449	59	129	3,896	X X X
7. 2002	8,447	2,015	6,432	4,572	1,010	314	65	403	84	129	4,130	X X X
8. 2003	9,723	1,666	8,057	4,340	858	285	46	614	106	141	4,229	X X X
9. 2004	9,991	933	9,058	3,774	313	170	15	537	41	151	4,112	X X X
10. 2005	10,505	625	9,880	3,485	363	128	15	563	27	125	3,771	X X X
11. 2006	10,838	556	10,282	2,310	64	48		490	42	63	2,742	X X X
12. Totals	X X X	X X X	X X X	38,747	6,362	2,503	354	4,990	696	1,310	38,828	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	22			
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	Direct and Assumed	Ceded			
1. Prior	644	183	115	80			30	6	28	2	1	546	X X X
2. 1997	138	45	48	33			9	1	6		1	122	X X X
3. 1998	182	94	52	35			11	1	9	1	1	123	X X X
4. 1999	187	102	61	39			16	2	11	1	2	131	X X X
5. 2000	198	134	103	53			27	2	16	1	3	154	X X X
6. 2001	212	120	133	47			35	4	22	1	6	230	X X X
7. 2002	373	98	219	69			88	6	34	2	13	539	X X X
8. 2003	331	114	346	109			102	8	57	3	20	602	X X X
9. 2004	912	112	730	117			270	11	86	4	34	1,754	X X X
10. 2005	1,191	95	1,020	167			346	15	159	7	43	2,432	X X X
11. 2006	1,721	50	1,874	93			456	2	297	14	79	4,189	X X X
12. Totals	6,089	1,147	4,701	842			1,390	58	725	36	203	10,822	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	496	50
2. 1997	4,573	814	3,759	79.976	90.144	78.069			0.300	108	14
3. 1998	5,478	1,408	4,070	83.723	117.627	76.132			0.300	105	18
4. 1999	5,373	1,055	4,318	88.605	118.009	83.520			0.300	107	24
5. 2000	5,156	904	4,252	89.467	126.611	84.215			0.300	114	40
6. 2001	5,001	875	4,126	80.857	104.415	77.165			0.300	178	52
7. 2002	6,003	1,334	4,669	71.067	66.203	72.590			0.300	425	114
8. 2003	6,075	1,244	4,831	62.481	74.670	59.960			0.300	454	148
9. 2004	6,479	613	5,866	64.848	65.702	64.760			0.300	1,413	341
10. 2005	6,892	689	6,203	65.607	110.240	62.783			0.300	1,949	483
11. 2006	7,196	265	6,931	66.396	47.662	67.409			0.300	3,452	737
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	8,801	2,021

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	3,436	3,431	3,381	3,337	3,243	3,341	3,347	3,324	3,382	3,387	5	63
2. 1997	3,301	3,376	3,353	3,342	3,345	3,348	3,359	3,368	3,400	3,405	5	37
3. 1998	X X X	3,616	3,578	3,564	3,572	3,558	3,569	3,619	3,657	3,660	3	41
4. 1999	X X X	X X X	3,607	3,668	3,700	3,755	3,787	3,834	3,864	3,885	21	51
5. 2000	X X X	X X X	X X X	3,509	3,662	3,714	3,784	3,773	3,799	3,831	32	58
6. 2001	X X X	X X X	X X X	X X X	3,629	3,588	3,642	3,701	3,698	3,721	23	20
7. 2002	X X X	X X X	X X X	X X X	X X X	4,259	4,355	4,343	4,303	4,325	22	(18)
8. 2003	X X X	X X X	X X X	X X X	X X X	X X X	4,376	4,282	4,234	4,278	44	(4)
9. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	5,489	5,304	5,297	(7)	(192)
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	5,831	5,520	(311)	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	6,202	X X X	X X X
12. Totals											(162)	57

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	1,364	1,882	2,177	2,392	2,529	2,602	2,649	2,735	2,812	X X X	X X X
2. 1997	1,553	2,371	2,751	2,983	3,122	3,192	3,235	3,263	3,273	3,287	X X X	X X X
3. 1998	X X X	1,686	2,555	2,967	3,190	3,328	3,409	3,467	3,497	3,541	X X X	X X X
4. 1999	X X X	X X X	1,757	2,680	3,110	3,387	3,532	3,655	3,714	3,758	X X X	X X X
5. 2000	X X X	X X X	X X X	1,718	2,684	3,118	3,376	3,526	3,617	3,688	X X X	X X X
6. 2001	X X X	X X X	X X X	X X X	1,702	2,627	3,018	3,295	3,404	3,506	X X X	X X X
7. 2002	X X X	X X X	X X X	X X X	X X X	1,660	2,706	3,235	3,622	3,811	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	1,918	2,922	3,415	3,721	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	1,898	3,078	3,616	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	1,996	3,235	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	2,294	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	1,101	757	480	366	246	233	305	146	119	59
2. 1997	833	415	196	114	61	39	31	21	21	23
3. 1998	X X X	921	364	232	149	76	42	51	36	27
4. 1999	X X X	X X X	792	358	209	113	64	73	36	36
5. 2000	X X X	X X X	X X X	723	404	237	151	104	49	75
6. 2001	X X X	X X X	X X X	X X X	825	429	199	179	85	117
7. 2002	X X X	X X X	X X X	X X X	X X X	1,554	797	354	251	232
8. 2003	X X X	X X X	X X X	X X X	X X X	X X X	1,181	570	388	331
9. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	2,011	1,182	872
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	2,298	1,184
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	2,235

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

States, Etc.	1 Is Insurer Licen- sed? (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	YES							
2. Alaska	AK	YES							
3. Arizona	AZ	YES	11,106	23,301		1,073	3,572	48	
4. Arkansas	AR	YES	655,084	593,048	70,289	(659,155)	110,423	2,826	
5. California	CA	YES	369,614	501,679	24,797	1,441,601	1,028,145	1,595	
6. Colorado	CO	YES							
7. Connecticut	CT	YES	829,158	310,609	18,294	63,087	45,336	3,577	
8. Delaware	DE	YES	139,975	65,234		8,316	21,328	604	
9. Dist. Columbia	DC	YES	31,100	12,612		2,100	2,126	134	
10. Florida	FL	YES							
11. Georgia	GA	YES	305,958	83,596	7,438	43,554	36,161	1,320	
12. Hawaii	HI	YES							
13. Idaho	ID	YES							
14. Illinois	IL	YES	713,808	415,313	93,092	660,258	570,149	3,080	
15. Indiana	IN	YES	1,568,146	976,194	406,605	540,771	341,379	6,765	
16. Iowa	IA	YES	145,891	58,602		8,707	8,719	629	
17. Kansas	KS	YES	240,083	108,912	11,588	34,899	23,310	1,036	
18. Kentucky	KY	YES	401,243	132,156	2,789	19,662	20,163	1,731	
19. Louisiana	LA	YES	8,384,622	8,424,798	10,816,162	5,492,690	5,162,977	36,173	
20. Maine	ME	YES	302,676	98,169	1,526	6,915	5,390	1,306	
21. Maryland	MD	YES	596,310	331,427	62,927	142,593	102,197	2,573	
22. Massachusetts	MA	YES	777,834	275,625	54,770	1,273,779	1,496,453	3,356	
23. Michigan	MI	YES	1,301,643	563,705	16,614	107,329	120,468	5,616	
24. Minnesota	MN	YES	203,160	73,827	1,049	11,319	10,220	876	
25. Mississippi	MS	YES							
26. Missouri	MO	YES	852,276	386,091	52,181	160,547	111,602	3,677	
27. Montana	MT	YES							
28. Nebraska	NE	YES	171,977	71,988	36,533	10,261	72,681	742	
29. Nevada	NV	YES							
30. New Hampshire	NH	YES	440,711	122,094	3,611	13,234	9,773	1,901	
31. New Jersey	NJ	YES	429,934	324,534	769,648	782,680	2,998,455	1,855	
32. New Mexico	NM	YES							
33. New York	NY	YES	176,017	75,181	520,979	929,787	2,179,903	759	
34. No. Carolina	NC	YES	299,994	70,525	23,273	33,435	10,074	1,294	
35. No. Dakota	ND	YES							
36. Ohio	OH	YES	691,866	204,720	30,940	51,822	33,447	2,985	
37. Oklahoma	OK	YES	1,560,738	1,481,440	152,456	310,364	426,854	6,733	
38. Oregon	OR	YES							
39. Pennsylvania	PA	YES	9,272,204	4,112,040	964,661	2,164,501	1,804,895	40,003	
40. Rhode Island	RI	YES	1,335,630	1,113,187	198,850	384,809	354,238	5,762	
41. So. Carolina	SC	YES	274,386	58,098	17,721	31,742	14,021	1,184	
42. So. Dakota	SD	YES							
43. Tennessee	TN	YES	462,589	155,910	1,644	43,920	44,139	1,996	
44. Texas	TX	YES	2,227,125	1,129,714	247,522	503,907	374,861	9,608	
45. Utah	UT	YES							
46. Vermont	VT	YES	272,447	173,254	10,737	102,845	92,156	1,175	
47. Virginia	VA	YES	57,090	19,429		722	2,172	246	
48. Washington	WA	YES							
49. West Virginia	WV	YES							
50. Wisconsin	WI	YES	4,743,801	2,495,340	6,533	945,272	779,442	20,466	
51. Wyoming	WY	YES							
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) 51		40,246,196	25,042,352	6,533	15,563,968	16,430,501	18,417,229	173,631

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 Court - Surety
*Location of Principal place of garaging of each individual car - Auto Liability, Auto Physical Damage	*Address of Assured - Other Accident and Health
*Principal Location of business or location of coverage - Liability other than Auto, Fidelity	*Location of Properties covered - Burglary and Theft
*Point of origin of shipment or principal location of assured - Inland Marine	*Principal Location of Assured - Ocean Marine, Credit
*State in which employees regularly work - Group Accident and Health	*Primary residence of Assured - Aircraft (all perils)

