

**ANNUAL STATEMENT**

**OF THE**

**The Netherlands Insurance Company**

**of** **Keene**

**in the state of** **New Hampshire**

**TO THE**

**Insurance Department**

**OF THE**

**STATE OF**

**FOR THE YEAR ENDED**  
**December 31, 2006**

**PROPERTY AND CASUALTY**

**2006**



24171200620100100

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

NAIC Group Code 0111 0111 NAIC Company Code 24171 Employer's ID Number 02-0342937  
(Current Period) (Prior Period)  
Organized under the Laws of New Hampshire , State of Domicile or Port of Entry New Hampshire  
Country of Domicile United States of America  
Incorporated/Organized: December 12, 1978 Commenced Business: January 1, 1979  
Statutory Home Office: 62 Maple Avenue Keene, NH 03431  
Main Administrative Office: 62 Maple Avenue Keene, NH 03431 603-352-3221  
Mail Address: 175 Berkeley Street Boston, MA 02117  
Primary Location of Books and Records: 175 Berkeley Street Boston, MA 02117 617-357-9500  
Internet Website Address: www.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: 62 Maple Avenue Keene, NH 03431 603-352-3221

OFFICERS  
Chairman of the Board  
Gary Richard Gregg

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

Vice-Presidents

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

DIRECTORS OR TRUSTEES

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

State of Massachusetts  
County of Suffolk ss

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

<u>(Signature)</u> <u>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)	170,233,527		170,233,527	135,365,743
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks	5,480,511		5,480,511	5,032,584
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 (\$ 17,534,564 , Schedule E-Part 1), cash equivalents (\$ 16,582,592 Schedule E-Part 2) and short-term investments (\$ 24,123,494 , Schedule DA)	58,240,650		58,240,650	27,760,667
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)				
8. Receivables for securities	31,610		31,610	6,128
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	233,986,298		233,986,298	168,165,122
11. Title plants less \$ 0 charged off (for Title insurers only)				
12. Investment income due and accrued	1,640,655		1,640,655	1,435,487
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	8,065,660	165,669	7,899,991	11,418,410
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 1,059,912 earned but unbilled premiums)	34,657,460	101,952	34,555,508	25,359,707
13.3 Accrued retrospective premiums	417,412	41,741	375,671	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers				17,798,873
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				151,427
16.2 Net deferred tax asset	8,440,000	2,711,959	5,728,041	5,797,259
17. Guaranty funds receivable or on deposit	180,137		180,137	174,244
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				22,882,889
22. Health care (\$ 0 ) and other amounts receivable				
23. Aggregate write-ins for other than invested assets	6,257,026	27,124	6,229,902	9,445,176
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	293,644,648	3,048,445	290,596,203	262,628,594
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	293,644,648	3,048,445	290,596,203	262,628,594

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	5,828,218	27,124	5,801,094	9,103,966
2302. Equities and deposits in pools and associations	428,808		428,808	341,210
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	6,257,026	27,124	6,229,902	9,445,176

LIABILITIES, SURPLUS AND OTHER FUNDS	1	2
	Current Year	Prior Year
1. Losses (Part 2A, Line 34, Column 8)	95,965,825	64,458,649
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	4,929,464	4,693,453
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	22,019,072	16,558,884
4. Commissions payable, contingent commissions and other similar charges	3,532,621	4,072,689
5. Other expenses (excluding taxes, licenses and fees)	2,731,192	1,631,543
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	1,876,147	1,089,016
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))	742,321	
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 \$ 310,394,460 and including warranty reserves of \$ 0 )	51,701,230	46,148,135
10. Advance premium	208,117	139,271
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders	48,484	
12. Ceded reinsurance premiums payable (net of ceding commissions)		42,581,523
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	5,895,414	10,839,121
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	1,782	
19. Payable to parent, subsidiaries and affiliates	1,597,956	
20. Payable for securities	2,097,170	
21. Liability for amounts held under uninsured plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	40,828,394	18,191,868
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	234,175,189	210,404,152
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	234,175,189	210,404,152
27. Aggregate write-ins for special surplus funds		
28. Common capital stock	3,600,000	3,600,000
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes		
32. Gross paid in and contributed surplus	9,597,505	9,597,505
33. Unassigned funds (surplus)	43,223,509	39,026,937
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)	56,421,014	52,224,442
36. TOTALS (Page 2, Line 26, Col. 3)	290,596,203	262,628,594

DETAILS OF WRITE-INS		
2301. Other liabilities	882,560	17,601
2302. Collateral held for securities loaned	39,945,834	18,174,267
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page		
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	40,828,394	18,191,868
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
UNDERWRITING INCOME			Current Year	Prior Year
1.	Premiums earned (Part 1, Line 34, Column 4)		112,069,606	94,344,137
DEDUCTIONS				
2.	Losses incurred (Part 2, Line 34, Column 7)		60,835,467	46,546,139
3.	Loss expenses incurred (Part 3, Line 25, Column 1)		13,388,964	12,413,112
4.	Other underwriting expenses incurred (Part 3, Line 25, Column 2)		37,503,846	33,879,070
5.	Aggregate write-ins for underwriting deductions			
6.	Total underwriting deductions (Lines 2 through 5)		111,728,277	92,838,321
7.	Net income of protected cells			
8.	Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)		341,329	1,505,816
INVESTMENT INCOME				
9.	Net investment income earned (Exhibit of Net Investment Income, Line 17)		8,489,121	6,484,006
10.	Net realized capital gains (losses) less capital gains tax of \$ (20,369) (Exhibit of Capital Gains (Losses))		(37,827)	680,144
11.	Net investment gain (loss) (Lines 9 + 10)		8,451,294	7,164,150
OTHER INCOME				
12.	Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 0 amount charged off \$ 167,309 )		(167,311)	(123,677)
13.	Finance and service charges not included in premiums		155,818	157,371
14.	Aggregate write-ins for miscellaneous income		315,869	(42,100)
15.	Total other income (Lines 12 through 14)		304,376	(8,406)
16.	Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)		9,096,999	8,661,560
17.	Dividends to policyholders		316,796	155,856
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)		8,780,203	8,505,704
19.	Federal and foreign income taxes incurred		4,818,985	3,367,110
20.	Net income (Line 18 minus Line 19) (to Line 22)		3,961,218	5,138,594
CAPITAL AND SURPLUS ACCOUNT				
21.	Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)		52,224,442	45,867,800
22.	Net income (from Line 20)		3,961,218	5,138,594
23.	Net transfers (to) from Protected Cell accounts			
24.	Change in net unrealized capital gains or (losses) less capital gains tax of \$ 16,574		30,781	(611,575)
25.	Change in net unrealized foreign exchange capital gain (loss)			
26.	Change in net deferred income tax		2,334,575	555,480
27.	Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)		(2,210,627)	1,274,309
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			
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		80,625	(166)
38.	Change in surplus as regards policyholders for the year (Lines 22 through 37)		4,196,572	6,356,642
39.	Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)		56,421,014	52,224,442

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)		315,869	(42,100)
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)		315,869	(42,100)
3701.	Other changes in surplus		80,625	(166)
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)		80,625	(166)

CASH FLOW

Cash from Operations	1	2
	Current Year	Prior Year
1. Premiums collected net of reinsurance	69,220,184	130,595,204
2. Net investment income	8,312,647	6,322,821
3. Miscellaneous income	(1,486,988)	408,658
4. Total (Lines 1 through 3)	76,045,843	137,326,683
5. Benefit and loss related payments	11,291,625	51,466,097
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	44,085,910	41,443,627
8. Dividends paid to policyholders	268,312	155,856
9. Federal and foreign income taxes paid (recovered) \$ 0 net of tax on capital gains (losses)	3,904,868	(358,084)
10. Total (Lines 5 through 9)	59,550,715	92,707,496
11. Net cash from operations (Line 4 minus Line 10)	16,495,128	44,619,187
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	33,749,744	23,905,324
12.2 Stocks		544,740
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets		1,083,500
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(885)	
12.7 Miscellaneous proceeds	2,071,687	
12.8 Total investment proceeds (Lines 12.1 to 12.7)	35,820,546	25,533,564
13. Cost of investments acquired (long-term only):		
13.1 Bonds	68,703,530	47,912,765
13.2 Stocks	400,574	369,834
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets		
13.6 Miscellaneous applications		2,542
13.7 Total investments acquired (Lines 13.1 to 13.6)	69,104,104	48,285,141
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)	(33,283,558)	(22,751,577)
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes		
16.2 Capital and paid in surplus, less treasury stock		
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders		
16.6 Other cash provided (applied)	47,268,413	(3,155,329)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	47,268,413	(3,155,329)
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)	30,479,983	18,712,281
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	27,760,667	9,048,386
19.2 End of year (Line 18 plus Line 19.1)	58,240,650	27,760,667

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	2	3	4
	Net Premiums Written per Column 6, Part 1B	Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire	1,141,699	545,927	580,161	1,107,465
2. Allied lines	979,624	483,537	500,605	962,556
3. Farmowners multiple peril	1,136,729	378,618	529,393	985,954
4. Homeowners multiple peril	8,919,703	4,214,166	4,671,737	8,462,132
5. Commercial multiple peril	36,717,484	15,465,657	17,124,680	35,058,461
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine	3,453,221	1,291,175	1,519,612	3,224,784
10. Financial guaranty				
11.1 Medical malpractice - occurrence				
11.2 Medical malpractice - claims-made				
12. Earthquake	419,629	169,440	213,765	375,304
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health				
16. Workers' compensation	22,678,050	5,121,474	6,329,630	21,469,894
17.1 Other liability - occurrence	6,748,186	2,542,832	3,035,216	6,255,802
17.2 Other liability - claims-made				
18.1 Products liability - occurrence	193,293	55,007	77,877	170,423
18.2 Products liability - claims-made				
19.1, 19.2 Private passenger auto liability	8,384,664	3,599,992	3,754,499	8,230,157
19.3, 19.4 Commercial auto liability	15,602,957	6,467,960	7,234,059	14,836,858
21. Auto physical damage	10,844,786	4,761,687	5,007,327	10,599,146
22. Aircraft (all perils)				
23. Fidelity	2,728	5,686	5,397	3,017
24. Surety	281,466	39,695	34,164	286,997
26. Burglary and theft	15,252	6,130	6,594	14,788
27. Boiler and machinery	26,017	16,450	16,603	25,864
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	117,545,488	45,165,433	50,641,319	112,069,602

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	580,161				580,161
2. Allied lines	500,605				500,605
3. Farmowners multiple peril	529,228	165			529,393
4. Homeowners multiple peril	4,671,737				4,671,737
5. Commercial multiple peril	17,525,011	3,413	(403,745)		17,124,679
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	1,519,179	433			1,519,612
10. Financial guaranty					
11.1 Medical malpractice - occurrence					
11.2 Medical malpractice - claims-made					
12. Earthquake	213,765				213,765
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	6,816,851		(487,221)		6,329,630
17.1 Other liability - occurrence	3,202,532	1,630	(168,946)		3,035,216
17.2 Other liability - claims-made					
18.1 Products liability - occurrence	77,877				77,877
18.2 Products liability - claims-made					
19.1, 19.2 Private passenger auto liability	3,754,499				3,754,499
19.3, 19.4 Commercial auto liability	7,232,030	2,029			7,234,059
21. Auto physical damage	5,006,783	544			5,007,327
22. Aircraft (all perils)					
23. Fidelity	2,660	2,737			5,397
24. Surety	28,033	6,132			34,165
26. Burglary and theft	6,584	10			6,594
27. Boiler and machinery	16,549	54			16,603
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	51,684,084	17,147	(1,059,912)		50,641,319
35. Accrued retrospective premiums based on experience					
36. Earned but unbilled premiums					1,059,912
37. Balance (Sum of Line 34 through 36)					51,701,231

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

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



UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B - PREMIUMS WRITTEN

Line of Business	1  Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6  Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
		2  From Affiliates	3  From Non- Affiliates	4  To Affiliates	5  To Non- Affiliates	
1. Fire	3,891,526	1,141,699		3,891,526		1,141,699
2. Allied lines	4,977,857	979,624		4,977,857		979,624
3. Farmowners multiple peril		1,136,729				1,136,729
4. Homeowners multiple peril	4,114,258	8,919,703		4,114,258		8,919,703
5. Commercial multiple peril	337,279,050	36,717,484		337,279,050		36,717,484
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	1,340,338	3,453,221		1,340,338		3,453,221
10. Financial guaranty						
11.1 Medical malpractice - occurrence						
11.2 Medical malpractice - claims-made						
12. Earthquake	3,408,156	419,629		3,408,156		419,629
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	109,009,367	22,678,050		109,009,367		22,678,050
17.1 Other liability - occurrence	4,302,227	6,748,186		4,302,227		6,748,186
17.2 Other liability - claims-made						
18.1 Products liability - occurrence	245,760	193,293		245,760		193,293
18.2 Products liability - claims-made						
19.1, 19.2 Private passenger auto liability	3,233,672	8,384,664		3,233,672		8,384,664
19.3, 19.4 Commercial auto liability	127,393,882	15,602,957		127,393,882		15,602,957
21. Auto physical damage	38,278,202	10,844,786		38,278,202		10,844,786
22. Aircraft (all perils)						
23. Fidelity	4,065	2,728		4,065		2,728
24. Surety	20,819	281,466		20,819		281,466
26. Burglary and theft	24,677	15,252		24,677		15,252
27. Boiler and machinery	230	26,017		230		26,017
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	637,524,086	117,545,488		637,524,086		117,545,488

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	349,532	319,567	349,532	319,567	224,718	108,008	436,277	39.394
2. Allied lines	682,796	563,911	682,796	563,911	124,641	349,173	339,379	35.258
3. Farmowners multiple peril		377,239		377,239	235,676	163,788	449,127	45.553
4. Homeowners multiple peril	1,376,151	4,975,245	1,376,151	4,975,245	2,008,682	1,709,526	5,274,401	62.329
5. Commercial multiple peril	130,582,083	12,894,140	130,582,083	12,894,140	24,794,267	20,627,217	17,061,190	48.665
6. Mortgage guaranty								
8. Ocean marine		8,409		8,409	667	(174,530)	183,606	
9. Inland marine	137,826	954,596	137,826	954,596	364,745	288,941	1,030,400	31.953
10. Financial guaranty								
11.1 Medical malpractice - occurrence								
11.2 Medical malpractice - claims - made								
12. Earthquake		(159)		(159)	188	3	26	0.007
13. Group accident and health								
14. Credit accident and health (group and individual)								
15. Other accident and health								
16. Workers' compensation	36,979,770	(7,779,226)	36,979,770	(7,779,226)	38,340,952	15,775,023	14,786,703	68.872
17.1 Other liability - occurrence	132,570	972,805	132,570	972,805	7,466,770	5,075,758	3,363,817	53.771
17.2 Other liability - claims - made								
18.1 Products liability - occurrence	48,105	(9,837)	48,105	(9,837)	169,289	(44,192)	203,644	119.493
18.2 Products liability - claims - made								
19.1, 19.2 Private passenger auto liability	2,911,121	5,367,000	2,911,121	5,367,000	7,911,564	7,795,230	5,483,334	66.625
19.3, 19.4 Commercial auto liability	48,664,182	5,716,614	48,664,182	5,716,614	13,764,790	11,961,665	7,519,739	50.683
21. Auto physical damage	18,242,533	4,918,707	18,242,533	4,918,707	282,574	325,030	4,876,251	46.006
22. Aircraft (all perils)								
23. Fidelity		(422)		(422)	7,342	925	5,995	198.707
24. Surety	(2,828)	65,857	(2,828)	65,857	82,172	117,081	30,948	10.783
26. Burglary and theft	14,806	966	14,806	966	796	(1,756)	3,518	23.790
27. Boiler and machinery		11		11	5,242	198,028	(192,775)	(745.341)
28. Credit								
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X							
31. Reinsurance-Nonproportional Assumed Liability	X X X	(17,132)		(17,132)	180,748	183,731	(20,115)	
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X							
33. Aggregate write-ins for other lines of business								
34. TOTALS	240,118,647	29,328,291	240,118,647	29,328,291	95,965,823	64,458,649	60,835,465	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 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded	Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	Unpaid Loss Adjustment Expenses
1. Fire	522,978	207,151	522,978	207,151	9,108	17,568	9,108	224,719	15,279
2. Allied lines	498,428	109,284	498,428	109,284	10,158	15,358	10,158	124,642	18,760
3. Farmowners multiple peril		204,842		204,842		30,835		235,677	43,102
4. Homeowners multiple peril	609,855	1,501,717	609,855	1,501,717	252,098	506,965	252,098	2,008,682	381,047
5. Commercial multiple peril	130,319,959	14,411,349	130,319,959	14,411,349	61,570,118	10,382,918	61,570,118	24,794,267	10,555,640
6. Mortgage guaranty									
8. Ocean marine						667		667	113
9. Inland marine	5,699	254,263	5,699	254,263	3,884	110,482	3,884	364,745	67,555
10. Financial guaranty									
11.1 Medical malpractice - occurrence									
11.2 Medical malpractice - claims - made									
12. Earthquake		188		188				188	723
13. Group accident and health								(a)	75
14. Credit accident and health (group and individual)									
15. Other accident and health								(a)	6
16. Workers' compensation	59,874,879	22,010,728	59,874,879	22,010,728	59,509,246	16,330,224	59,509,246	38,340,952	5,000,116
17.1 Other liability - occurrence	2,105,944	2,179,652	2,105,944	2,179,652	3,876,133	5,287,118	3,876,133	7,466,770	1,636,291
17.2 Other liability - claims - made									
18.1 Products liability - occurrence	18,399	36,199	18,399	36,199	108,969	133,091	108,969	169,290	58,703
18.2 Products liability - claims - made									4
19.1, 19.2 Private passenger auto liability	2,043,766	5,508,323	2,043,766	5,508,323	943,268	2,403,241	943,268	7,911,564	1,671,040
19.3, 19.4 Commercial auto liability	53,351,990	7,110,982	53,351,990	7,110,982	46,430,104	6,653,808	46,430,104	13,764,790	2,460,439
21. Auto physical damage	1,477,565	296,218	1,477,565	296,218		(13,644)		282,574	91,626
22. Aircraft (all perils)									
23. Fidelity		818		818	830	6,524	830	7,342	919
24. Surety	25,025	48,013	25,025	48,013	16,517	34,159	16,517	82,172	14,427
26. Burglary and theft	12,000	404	12,000	404		392		796	4,042
27. Boiler and machinery						5,242		5,242	(832)
28. Credit									
29. International									
30. Reinsurance-Nonproportional Assumed Property	X X X				X X X				
31. Reinsurance-Nonproportional Assumed Liability	X X X	21,530		21,530	X X X	159,218		180,748	
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
33. Aggregate write-ins for other lines of business									
34. TOTALS	250,866,487	53,901,661	250,866,487	53,901,661	172,730,433	42,064,166	172,730,433	95,965,827	22,019,075

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	42,236,366			42,236,366
1.2 Reinsurance assumed	5,177,387			5,177,387
1.3 Reinsurance ceded	42,236,366			42,236,366
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	5,177,387			5,177,387
2. Commission and brokerage:				
2.1 Direct, excluding contingent		89,772,638		89,772,638
2.2 Reinsurance assumed, excluding contingent		15,663,454		15,663,454
2.3 Reinsurance ceded, excluding contingent		89,772,638		89,772,638
2.4 Contingent-direct				
2.5 Contingent-reinsurance assumed		3,060,455		3,060,455
2.6 Contingent-reinsurance ceded				
2.7 Policy and membership fees				
2.8 Net commission and brokerage (2.1 + 2.2 - 2.3 + 2.4 + 2.5 - 2.6 + 2.7)		18,723,909		18,723,909
3. Allowances to manager and agents	91	40,734		40,825
4. Advertising	77,977	306,908	191	385,076
5. Boards, bureaus and associations	33,884	270,900	6	304,790
6. Surveys and underwriting reports	2	338,165		338,167
7. Audit of assureds' records		2,023		2,023
8. Salary and related items:				
8.1 Salaries	3,227,709	7,884,694	45,177	11,157,580
8.2 Payroll taxes	235,134	599,184	1,958	836,276
9. Employee relations and welfare	864,445	2,114,675	1,960	2,981,080
10. Insurance	696,786	68,378	152	765,316
11. Directors' fees	34	606		640
12. Travel and travel items	186,528	670,795	1,501	858,824
13. Rent and rent items	311,922	851,101	640	1,163,663
14. Equipment	214,286	532,318	705	747,309
15. Cost or depreciation of EDP equipment and software	421,381	483,986	370	905,737
16. Printing and stationery	62,399	164,724	100	227,223
17. Postage, telephone and telegraph, exchange and express	136,671	424,117	223	561,011
18. Legal and auditing	29,730	139,728	4,294	173,752
19. Totals (Lines 3 to 18)	6,498,979	14,893,036	57,277	21,449,292
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 37,036		2,497,930		2,497,930
20.2 Insurance department licenses and fees		74,491		74,491
20.3 Gross guaranty association assessments		4,575		4,575
20.4 All other (excluding federal and foreign income and real estate)		348,578		348,578
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		2,925,574		2,925,574
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	1,712,599	961,325	6,689	2,680,613
25. Total expenses incurred	13,388,965	37,503,844	63,966 (a)	50,956,775
26. Less unpaid expenses-current year	22,019,072	8,139,960		30,159,032
27. Add unpaid expenses-prior year	16,558,884	6,793,248		23,352,132
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)	7,928,777	36,157,132	63,966	44,149,875

DETAILS OF WRITE-INS				
2401. Change in unallocated expense reserves	1,149,514			1,149,514
2402.				
2403. Other expenses	563,085	961,325	6,689	1,531,099
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	1,712,599	961,325	6,689	2,680,613

(a) Includes management fees of \$ 63,966 to affiliates and \$ 0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1	2
	Collected During Year	Earned During Year
1. U.S. Government bonds	(a) 3,187,279	3,130,257
1.1 Bonds exempt from U.S. tax	(a) 25,537	130,183
1.2 Other bonds (unaffiliated)	(a) 3,366,778	3,492,510
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	404,035	404,035
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) 613,932	645,744
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income	750,359	750,359
10. Total gross investment income	8,347,920	8,553,088
11. Investment expenses		(g) 63,967
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)		63,967
17. Net investment income (Line 10 minus Line 16)		8,489,121
DETAILS OF WRITE-INS		
0901. Miscellaneous Income/(Expense)	750,359	750,359
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)	750,359	750,359
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 \$ 111,824 accrual of discount less \$ 140,518 amortization of premium and less \$ 172,774 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 \$ 44,682 accrual of discount less \$ 0 amortization of premium and less \$ 15,385 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	2	3	4
	Realized Gain (Loss) On Sales or Maturity	Other Realized Adjustments	Unrealized Increases (Decreases) by Adjustment	Total
1. U.S. Government bonds	(5,889)			(5,889)
1.1 Bonds exempt from U.S. tax				
1.2 Other bonds (unaffiliated)	(1,280)	(50,141)		(51,421)
1.3 Bonds of affiliates				
2.1 Preferred stocks (unaffiliated)				
2.11 Preferred stocks of affiliates				
2.2 Common stocks (unaffiliated)			47,355	47,355
2.21 Common stocks of affiliates				
3. Mortgage loans				
4. Real estate				
5. Contract loans				
6. Cash, cash equivalents and short-term investments	(885)			(885)
7. Derivative instruments				
8. Other invested assets				
9. Aggregate write-ins for capital gains (losses)				
10. Total capital gains (losses)	(8,054)	(50,141)	47,355	(10,840)
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	165,669	380,352	214,683
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	101,952	92,226	(9,726)
13.3 Accrued retrospective premiums	41,741		(41,741)
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	2,711,959	324,741	(2,387,218)
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	27,124	40,497	13,373
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	3,048,445	837,816	(2,210,629)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	3,048,445	837,816	(2,210,629)

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	27,124	40,497	13,373
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)	27,124	40,497	13,373

## NOTES TO FINANCIAL STATEMENTS

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### Note 1- Summary of Significant Accounting Policies

A. Accounting Practices

Effective January 1, 2001, and subject to any deviations prescribed or permitted by the State of New Hampshire, the accompanying financial statements of The Netherlands 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 unaffiliated 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 affiliate entities.
8. The Company has no investments in joint ventures, partnerships or limited liability companies.
9. Derivative Securities, refer to Note 8.
10. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 53, *Property Casualty Contracts - Premiums*.
11. Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and follow current standards of practice. Any adjustments to the liability are reflected in the period that they are determined.
12. The Company did not change its capitalization policy in 2006.
13. The Company has no pharmaceutical rebate receivables.

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

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

### Note 3- Business Combinations and Goodwill

A. Statutory Purchase Method

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

B. Statutory Mergers

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

NOTES TO FINANCIAL STATEMENTS

C. Impairment Loss

Not applicable

**Note 4- Discontinued Operations**

The Company has no discontinued operations to report.

**Note 5- Investments**

A. Mortgage Loans, including Mezzanine Real Estate Loans

The Company has no mortgage loans.

B. Troubled Debt Restructuring for Creditors

Not applicable

C. Reverse Mortgages

The Company has no reverse mortgages.

D. Loan-Backed Securities

1. The Company elected to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities purchased prior to that date, where historical cash flows are not readily available.
2. Prepayment speed assumptions are updated monthly with data sourced from the Bloomberg data service.
3. The Company had no negative yield situations requiring a change from the retrospective to prospective method.

E. Repurchase Agreements

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

F. Real Estate

The Company does not own real estate.

G. Investments in Low-Income Housing Tax Credits

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

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

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

B. Impairments on joint ventures, partnerships and limited liability companies

Not applicable

**Note 7- Investment Income**

A. Accrued Investment Income

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

B. Amounts Nonadmitted

No amounts were excluded as of December 31, 2006.

**Note 8- Derivative Instruments**

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

**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	10,073,000	7,549,000	2,524,000
Total of deferred tax liabilities	(1,633,000)	(1,427,000)	(206,000)
Net deferred tax asset	8,440,000	6,122,000	2,318,000
Net deferred tax asset non-admitted	(2,711,959)	(324,741)	(2,387,488)
Net admitted deferred tax asset	5,728,041	5,797,259	(69,218)



NOTES TO FINANCIAL STATEMENTS

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

	2006	2005
Federal tax on operations	4,818,985	3,367,110
Net operating loss benefit	0	0
Foreign tax on operations	0	0
Income tax incurred on operations	4,818,985	3,367,110
Tax on capital (losses) gains	(20,369)	366,231
Total income tax incurred	4,798,616	3,733,341

The Company’s deferred tax assets and liabilities result primarily from discounting of unpaid loss and LAE reserves, limits on unearned premium reserve deductions, differences in investment income recognition, fixed asset depreciation differences, unrealized gain, 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)	2,334,575
Tax effect of unrealized (gains) losses	(16,575)
Total change in net deferred income tax	2,318,000

- D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of goodwill, revisions to prior year estimates, and changes in deferred taxes related to statutory non-admitted assets.
- E. The amount of Federal income taxes paid and available for recoupment in the event of future losses is \$4,326,000 from the current year and \$3,037,000 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

NOTES TO FINANCIAL STATEMENTS

Liberty Hospitality Group, Inc.	The Midwestern Indemnity Company
Liberty Insurance Company of America	The National Corporation
Liberty Insurance Corporation	The Netherlands Insurance Company
Liberty Insurance Holdings, Inc.	Wausau Business Insurance Company
Liberty Insurance Underwriters, Inc.	Wausau General Insurance Company
Liberty International Asia Pacific Holdings, Inc.	Wausau Service Corporation
Liberty International Holdings, Inc.	Wausau Signature Agency, Inc.
Liberty Life Assurance Company of Boston	Wausau Underwriters Insurance Company

The method of federal income tax allocation is subject to a written agreement. Allocation is based upon separate return calculations with credit applied for losses as appropriate. The Company has the enforceable right to recoup prior year payments in the event of future losses.

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

- A. The Company is a wholly owned subsidiary of LIH US P&C Corporation, an insurance holding company incorporated in the state of Delaware. All of the outstanding shares of LIH US P&C Corporation are owned by Liberty Insurance Holdings, Inc., an insurance holding company incorporated in the state of Delaware. All of the outstanding shares of Liberty Insurance Holdings, Inc. are owned by Liberty Mutual Insurance Company (“LMIC”), a Massachusetts company. 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.
- C. Refer to Notes 10F and 26.
- D. At December 31, 2006, the Company reported \$1,597,956 due to affiliates. In general, the terms of the inter-company arrangements require settlement at least quarterly.
- E. The Company has made no guarantee or initiated undertaking for the benefit of affiliates which result in a material contingent exposure of the Company’s or affiliates’ assets or liabilities.
- F. Refer to Note 26 for information regarding the Inter-Company Reinsurance Agreement.

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

The Company entered into investment management agreements, effective May 26, 1999 with 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 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 they may borrow up to \$50,000,000 from LMIC. Each loan will be for six months or less. The purpose of the extension of credit is for operating liquidity to accommodate fluctuations in daily cash flow and to promote efficient management of investments. As of December 31, 2006, there have been no drawings under this agreement.

- 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. See Note 10 I.

**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 for whom it has any direct obligations for a defined benefit plan, deferred compensation arrangements, compensated absences or other post retirement benefit plans. Services for the operation of the Company are provided under provisions of the management services agreement as described in note 10 F.

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

1. Common Stock
- The Company has 5,000 shares authorized, and 3,600 shares issued and outstanding as of December 31, 2006. All shares have a stated par value of \$1,000.
2. Preferred Stock
- Not applicable
3. Dividend Restrictions
- There are no dividend restrictions.
4. The maximum amount of dividends which can be paid by New Hampshire-domiciled insurance companies to shareholders without prior approval of the Insurance Commissioner is 10% of policyholder surplus less any dividends paid in the preceding twelve months. The maximum dividend payout which may be made without prior approval in 2007 is \$5,642,101.
5. The Company does not have restricted unassigned surplus.
6. The Company had no advances to surplus.
7. The Company does not hold stock for special purposes.
8. The Company does not hold special surplus funds.
9. The portion of unassigned funds (surplus) represented by cumulative unrealized gains and (losses) is \$176,029.
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 \$687,042 that is offset by future premium tax credits of \$180,137. 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

NOTES TO FINANCIAL STATEMENTS

taxes, and other matters are not considered material in relation to the financial position of the Company.

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

**Note 15- Leases**

A. Aside from certain sale-leaseback transactions disclosed below, the Company is not involved in material lease arrangements.

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

Year(s)	Operating Lease Arrangements
2007	\$398,973
2008	387,673
2009	280,905
2010	232,076
2011	222,777
2012 & thereafter	823,830
Total	<u>\$2,346,234</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 \$41,729,191 with corresponding collateral value of \$42,555,165 of which \$39,945,834 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 Accident and Health Plans and the Uninsured Portion of Partially Insured Plans**

A. Administrative Services Only (ASO) Plans

Not applicable

B. Administrative Services Contract (ASC) Plans

Not applicable

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts

Not applicable

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

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

NOTES TO FINANCIAL STATEMENTS

**Note 20 – September 11 Events**

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

**Note 21- Other Items**

- A. The Company has no extraordinary items to report.
- B. Troubled Debt Restructuring for Debtors  
  
Not applicable
- C. Other Disclosures  
  
1. Assets in the amount of \$3,266,242 and \$3,700,274 as of December 31, 2006 and 2005, respectively, were on deposit with government authorities or trustees as required by law.
- D. The Company routinely assesses the collectibility of its premium receivable. Based upon Company experience, amounts in excess of non-admitted amounts are not believed to be material.
- E. Business Interruption Insurance Recoveries  
  
The Company does not purchase business interruption coverage.
- F. Hybrid Securities  
  
The Company currently owns the following securities meeting the NAIC definition of “Hybrid Securities” per SVO report 9B. These are all NAIC Class 1 securities reported on Schedule D1.

<u>CUSIP</u>	<u>Issuer</u>	<u>Description</u>	<u>Book/Adjusted Carrying Value</u>
065912AA5	BANKAMERICA INSTIT-B	Redeemable Preferred	897,326
31945JAA9	FIRST CHICAGO CAPITAL	Redeemable Preferred	945,770

- G. State Transferable Tax Credits  
  
The Company does not hold transferable state tax credits.
- H. Impact of Medicare Modification Act on Post Retirement Benefits  
  
Not applicable. (Refer to Note 12)

**Note 22- Events Subsequent**

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

**Note 23- Reinsurance**

- A. Excluding amounts arising pursuant to the PIC Inter-Company Reinsurance Agreement, as described in Note 26, there are no unsecured reinsurance recoverables with an individual reinsurer which exceed 3% of policyholders surplus.
- B. There are no reinsurance recoverables in dispute from an individual reinsurer which exceed 5% of the Company's surplus. In addition, the aggregate reinsurance recoverables in dispute do not exceed 10% of the Company's surplus.
- C. Reinsurance Assumed & Ceded  
1. The following table sets forth the maximum return premium and commission equity due the reinsurer or the Company if all of the Company’s assumed and ceded reinsurance were canceled as of December 31, 2006.

	<u>Assumed Reinsurance</u>		<u>Ceded Reinsurance</u>		<u>Net Reinsurance</u>	
	Commission UEP	Equity	Commission UEP	Equity	Commission UEP	Equity
Affiliates	\$51,701,230	\$7,140,202	\$310,394,460	\$43,708,042	(\$258,693,230)	(\$36,567,840)
All Other	0	0	0	0	0	0
Total	\$51,701,230	\$7,140,202	\$310,394,460	\$43,708,042	(\$258,693,230)	(\$36,567,840)

Direct unearned premium reserve of  
\$310,394,460

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	3,277,281
Ceded	0
Net	<u>\$3,277,281</u>

- D. The Company did not write off any uncollectible balances in 2006.

NOTES TO FINANCIAL STATEMENTS

- 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.

Note 24 - Retrospectively Rated Contracts and Contracts Subject to Redetermination

- A. The Company estimates accrued retrospective premium adjustments through the review of each individual retrospectively rated risk, comparing case-base loss development with that anticipated in the policy contract to arrive at the best estimate of return or additional retrospective premium.
- B. Accrued retrospective premiums are recorded as a component of written premiums.
- C. For detail of net premium written subject to retrospective rating features see Schedule P - Part 7A.
- D. Ten Percent of the amount of accrued retrospective premiums not offset by retrospective return premiums, other liabilities to the same party (other than loss and loss adjustment expense reserves), or collateral as permitted by SSAP No. 66, retrospectively Rated contracts, has been non-admitted.

a. Total accrued retro premium	\$417,412
b. Less: Non-admitted amount (10%)	41,741
c. Admitted amount	<u>\$375,671</u>

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.

NOTES TO FINANCIAL STATEMENTS

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

Pursuant to the approval of the appropriate state insurance departments, effective January 1, 2006 PIC entered into an inter-company 100% Quota Share Reinsurance Agreement with LNW, NPIC and OAIC. The transaction resulted in LNW, NPIC and OAIC transferring its in-force business, as of January 1, 2006 to PIC and compensating PIC by a like amount. There were no gains or losses to surplus as a result. Also effective January 1, 2006 the Reinsurance Agreements between LNW, OAIC and NPIC were terminated via Cancellation Addenda to the Reinsurance Agreements.

Note 27- Structured Settlements

- A. As a result of purchased annuities with the claimant as payee, the Company no longer carries reserves of \$1,828,364 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 \$1,828,364 as of December 31, 2006.
- B. A summary of purchased structured settlement annuities exceeding 1% of policyholders’ surplus and whereby the Company has not obtained a release of liability from the claimant is as follows:

Life Ins. Company and Location	Licensed in Company’s State of Domicile (Yes/No)	Statement Value of Annuities
Liberty Life Assurance Company of Boston Boston, Massachusetts	Yes	\$662,815

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 \$39,546,198 are carried at a discounted value of \$38,340,952 representing a discount of \$1,205,246.

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.

NOTES TO FINANCIAL STATEMENTS

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

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

Uncertainty Regarding Reserving Methodologies

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

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

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

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

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

<b><u>Asbestos:</u></b>					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Direct Basis</b>					
Beginning Reserves	366,557	497,309	563,744	591,423	588,950
Incurred losses and LAE	188,025	112,470	105,704	78,858	108,096
Calendar year payments	57,273	46,035	78,025	81,331	44,548
Ending Reserves	497,309	563,744	591,423	588,950	652,498
<b>Assumed Reinsurance Basis</b>					
Beginning Reserves	65,456	43,737	31,020	9,842	9,842
Incurred losses and LAE	-	-	-	-	-
Calendar year payments	21,719	12,717	21,178	-	-
Ending Reserves	43,737	31,020	9,842	9,842	9,842
<b>Net of Ceded Reinsurance Basis</b>					
Beginning Reserves	348,002	413,811	514,430	470,037	452,102
Incurred losses and LAE	132,435	159,371	39,001	63,396	88,476
Calendar year payments	66,626	58,752	83,394	81,331	24,928
Ending Reserves	413,811	514,430	470,037	452,102	515,650
<b>Ending Reserves for Bulk + IBNR included above (Loss &amp; LAE)</b>					
Direct Basis					472,363
Assumed Reinsurance Basis					9,843
Net of Ceded Reinsurance Basis					382,346
<b>Ending Reserves for LAE included above (Case, Bulk &amp; IBNR)</b>					
Direct Basis					125,885
Assumed Reinsurance Basis					-
Net of Ceded Reinsurance Basis					109,847
<b><u>Environmental:</u></b>					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Direct Basis</b>					
Beginning Reserves	688,373	432,687	424,807	456,421	573,397
Incurred losses and LAE	16,440	24,314	97,750	278,521	96,420
Calendar year payments	272,126	32,194	66,136	161,545	247,470
Ending Reserves	432,687	424,807	456,421	573,397	422,347



NOTES TO FINANCIAL STATEMENTS

<b>Assumed Reinsurance Basis</b>					
Beginning Reserves	21,433	24,613	183,295	170,006	173,894
Incurred losses and LAE	-	163,500	-	4,499	11,448
Calendar year payments	(3,180)	4,818	13,289	611	26,686
Ending Reserves	24,613	183,295	170,006	173,894	158,656
<b>Net of Ceded Reinsurance Basis</b>					
Beginning Reserves	602,317	341,915	571,057	478,400	466,190
Incurred losses and LAE	-	255,645	6,331	141,657	44,897
Calendar year payments	260,402	26,503	98,988	153,867	225,090
Ending Reserves	341,915	571,057	478,400	466,190	285,997
<b>Ending Reserves for Bulk + IBNR included above (Loss &amp; LAE)</b>					
Direct Basis					101,440
Assumed Reinsurance Basis					158,223
Net of Ceded Reinsurance Basis					154,047
<b>Ending Reserves for LAE included above (Case, Bulk &amp; IBNR)</b>					
Direct Basis					89,587
Assumed Reinsurance Basis					-
Net of Ceded Reinsurance Basis					69,985

**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	51,851,793	22.160	51,851,793	22.160
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	21,517,399	9.196	21,517,399	9.196
1.22 Issued by U.S. government sponsored agencies	2,477,884	1.059	2,477,884	1.059
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	7,123,802	3.045	7,123,802	3.045
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	6,037,528	2.580	6,037,528	2.580
1.43 Revenue and assessment obligations	7,188,605	3.072	7,188,605	3.072
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	1,050,552	0.449	1,050,552	0.449
1.512 Issued or guaranteed by FNMA and FHLMC	27,911,307	11.929	27,911,307	11.929
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	14,316,510	6.119	14,316,510	6.119
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage- backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All other	6,493,772	2.775	6,493,772	2.775
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	24,264,371	10.370	24,264,371	10.370
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	5,480,514	2.342	5,480,514	2.342
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	31,610	0.014	31,610	0.014
8. Cash, cash equivalents and short-term investments	58,240,651	24.891	58,240,651	24.891
9. Other invested assets				
10. Total invested assets	233,986,298	100.000	233,986,298	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?

New Hampshire
- 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).

06/23/2006
- 3.4

By what department or departments? State of New Hampshire Insurance Department
- 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?

11.11 Name of real estate holding company  
11.12 Number of parcels involved  
11.13 Total book/adjusted carrying value

Yes [ ] No [X]

0

\$0

- 11.2 If yes, provide explanation

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

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

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

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

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

BOARD OF DIRECTORS

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

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

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

Yes [X] No [ ]

FINANCIAL

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

16.11 To directors or other officers  
16.12 To stockholders not officers  
16.13 Trustees, supreme or grand (Fraternal only)

\$0  
\$0  
\$0
- 16.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

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

\$0  
\$0  
\$0
- 17.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

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

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

\$0  
\$0  
\$0  
\$0
- 18.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

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

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

\$0  
\$0  
\$0

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

Yes [ ] No [X]

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

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

\$0

INVESTMENT

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

Yes [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

\$41,729,192

\$0

\$0

\$0

\$0

\$0

\$0

\$0

\$0

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.

\$0

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

Yes [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#-10-0	LMIA HIGH YIELD FUND	5,480,512
25.2999	Total	5,480,512

- 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	118,636	12/31/2006
LMIA HIGH YIELD FUND	JP MORGAN PRIME MONEY MARKET FUND	112,451	12/31/2006
LMIA HIGH YIELD FUND	CHESAPEAKE ENERGY CORP	111,739	12/31/2006
LMIA HIGH YIELD FUND	WILLIAMS PARTNERS LP/WIL	98,369	12/31/2006
LMIA HIGH YIELD FUND	SENIOR HOUSING PROP	91,399	12/31/2006

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

	1	2	3
	Statement (Admitted) Value	Fair Value	Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
26.1 Bonds	194,357,021	193,253,639	(1,103,382)
26.2 Preferred stocks			
26.3 Totals	194,357,021	193,253,639	(1,103,382)

- 26.4 Describe the sources or methods utilized in determining the fair values: IDC, BLOOMBERG, NAIC-SVO, BROKER QUOTES, ANALYTICALLY DETERMINED

.....

- 27.1 Have all the filing requirements of the Purposes and Procedures manual of the NAIC Securitties 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? 

\$ 0
- 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? 

\$ 1,242
- 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
New Mexico Insurance Division	\$ 1,000
	\$
	\$

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

\$ 0
- 30.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1	2
Name	Amount Paid
	\$
	\$
	\$

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

YES [ ] NO [X]

1.2

If yes, indicate premium earned on U. S. business only.

\$

1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

\$

1.31

Reason for excluding

1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

\$

1.5

Indicate total incurred claims on all Medicare Supplement insurance.

\$

1.6

Individual policies:

Most current three years:

1.61

Total premium earned

\$

1.62

Total incurred claims

\$

1.63

Number of covered lives

\$

All years prior to most current three years:

1.64

Total premium earned

\$

1.65

Total incurred claims

\$

1.66

Number of covered lives

\$

1.7

Group policies:

Most current three years:

1.71

Total premium earned

\$

1.72

Total incurred claims

\$

1.73

Number of covered lives

\$

All years prior to most current three years:

1.74

Total premium earned

\$

1.75

Total incurred claims

\$

1.76

Number of covered lives

\$

2.

Health Test:

1

Current Year

2

Prior Year

2.1

Premium Numerator

\$

\$

2.2

Premium Denominator

\$

\$

2.3

Premium Ratio (2.1/2.2)

2.4

Reserve Numerator

\$

\$

2.5

Reserve Denominator

\$

\$

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

\$

17,055,187

3.22

Non-participating policies

\$

620,468,901

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	\$	1,736,541
-------	---------------	----	-----------

12.12	Unpaid underwriting expenses (including loss adjustment expenses)	\$	193,782
-------	---	----	---------

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? \$ 84,203

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?

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):	\$ 627,023
--	------------

13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? YES [ ] NO [X]

13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount.

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 ☒

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 ☒

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 ☒

\$

\$

\$

\$

\$

\$

\$

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

17.18

Gross amount of unauthorized reinsurance in Schedule F - Part 3 excluded from Schedule F - Part 5

17.19

Unfunded portion of Interrogatory 17.18

17.20

Paid losses and loss adjustment expenses portion of Interrogatory 17.18

17.21

Case reserves portion of Interrogatory 17.18

17.22

Incurred but not reported portion of Interrogatory 17.18

17.23

Unearned premium portion of Interrogatory 17.18

17.24

Contingent commission portion of Interrogatory 17.18

\$

\$

\$

\$

\$

\$

\$

FIVE-YEAR HISTORICAL DATA

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

	1 2006	2 2005	3 2004	4 2003	5 2002
<b>Gross Premiums Written</b> (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	297,792,058	229,189,431	188,368,416	155,828,341	94,620,427
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	68,774,967	57,738,467	54,858,266	44,385,443	31,471,896
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	388,193,471	325,962,325	274,434,209	181,026,116	104,919,326
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	309,078	71,523	105,972	179,610	437,682
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)				(358)	
6. Total (Line 34)	755,069,574	612,961,746	517,766,863	381,419,152	231,449,331
<b>Net Premiums Written</b> (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	53,607,150	39,400,477	38,111,409	30,460,451	26,578,732
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	16,854,211	15,247,580	16,019,571	14,104,188	12,485,088
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	46,799,933	41,310,963	39,754,291	29,366,977	22,884,677
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	284,194	45,300	66,763	64,114	208,046
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)				(358)	
12. Total (Line 34)	117,545,488	96,004,320	93,952,034	73,995,372	62,156,543
<b>Statement of Income</b> (Page 4)					
13. Net underwriting gain (loss) (Line 8)	341,329	1,505,816	35,578	3,951,071	(5,486,110)
14. Net investment gain (loss) (Line 11)	8,451,294	7,164,150	6,405,989	5,336,170	5,077,048
15. Total other income (Line 15)	304,376	(8,406)	89,925	(344,724)	335,759
16. Dividends to policyholders (Line 17)	316,796	155,856	118,218	127,374	140,461
17. Federal and foreign income taxes incurred (Line 19)	4,818,985	3,367,110	2,168,891	4,125,176	66,209
18. Net income (Line 20)	3,961,218	5,138,594	4,244,383	4,689,967	(279,973)
<b>Balance Sheet Lines</b> (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	290,596,203	262,628,594	182,028,229	179,217,235	127,781,301
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	7,899,991	11,418,410	4,235,506	8,177,500	2,856,460
20.2 Deferred and not yet due (Line 13.2)	34,555,508	25,359,707	24,392,168	21,149,098	16,214,197
20.3 Accrued retrospective premiums (Line 13.3)	375,671			555,659	
21. Total liabilities excluding protected cell business (Page 3, Line 24)	234,175,189	210,404,152	136,160,429	138,270,941	92,694,957
22. Losses (Page 3, Line 1)	95,965,825	69,152,102	56,273,019	42,777,411	38,816,391
23. Loss adjustment expenses (Page 3, Line 3)	22,019,072	16,558,884	13,491,364	8,926,985	8,967,315
24. Unearned premiums (Page 3, Line 9)	51,701,230	46,148,135	44,321,651	36,099,787	29,812,080
25. Capital paid up (Page 3, Lines 28 & 29)	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
26. Surplus as regards policyholders (Page 3, Line 35)	56,421,014	52,224,442	45,867,800	40,946,294	35,086,344
<b>Risk-Based Capital Analysis</b>					
27. Total adjusted capital	56,421,014	52,224,442	45,867,800	40,946,294	35,086,344
28. Authorized control level risk-based capital	10,213,652	9,095,753	7,382,762	5,840,587	4,839,892
<b>Percentage Distribution of Cash, Cash Equivalents and Invested Assets</b> (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
29. Bonds (Line 1)	72.8	80.5	87.6	86.3	89.3
30. Stocks (Lines 2.1 & 2.2)	2.3	3.0	4.5	4.8	5.6
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)	24.9	16.5	7.2	7.9	5.1
34. Contract loans (Line 6)					XXX
35. Other invested assets (Line 7)			0.8	1.0	
36. Receivables for securities (Line 8)					
37. Aggregate write-ins for invested assets (Line 9)					
38. Cash, cash equivalents and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
39. Affiliated bonds, (Sch. D, Summary, Line 25, Col. 1)					
40. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)					
41. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 2)					
42. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 11)					
43. Affiliated mortgage loans on real estate					
44. All other affiliated					
45. Total of above Lines 39 to 44					
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)					

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2006	2 2005	3 2004	4 2003	5 2002
<b>Capital and Surplus Accounts</b> (Page 4)					
47. Net unrealized capital gains (losses) (Line 24)	30,781	(611,575)	131,923	1,034,494	213,562
48. Dividends to stockholders (Line 35)					
49. Change in surplus as regards policyholders for the year (Line 38)	4,196,572	6,356,642	4,921,506	5,859,950	1,298,654
<b>Gross Losses Paid</b> (Page 9, Part 2, Cols. 1 & 2)					
50. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	93,003,104	81,035,330	65,064,325	53,786,749	55,744,018
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	26,185,081	23,865,017	19,065,916	15,669,343	11,400,685
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	150,213,278	89,870,051	64,501,841	42,606,201	35,328,743
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	62,607	59,280	12,190	(776)	311,275
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(17,132)			23,670	
55. Total (Line 34)	269,446,938	194,829,678	148,644,272	112,085,187	102,784,721
<b>Net Losses Paid</b> (Page 9, Part 2, Col. 4)					
56. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	4,267,356	17,257,814	13,436,706	13,605,964	12,952,238
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	6,757,588	6,215,589	5,891,288	5,947,283	5,322,980
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	18,255,044	14,863,639	10,185,508	10,737,280	8,781,658
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	65,435	23,466	14,560	23,448	129,205
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(17,132)			23,670	
61. Total (Line 34)	29,328,291	38,360,508	29,528,062	30,337,645	27,186,081
<b>Operating Percentages</b> (Page 4) (Item divided by Page 4, Line 1) x 100.0					
62. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
63. Losses incurred (Line 2)	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)
<b>Other Percentages</b>					
67. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 34 x 100.0)	31.6	35.3	30.5	32.5	28.4
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)	208.3	183.8	204.8	180.7	177.2
<b>One Year Loss Development (000 omitted)</b>					
70. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)	(1,748)	(2,019)	772	(200)	2,706
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)	(3.3)	(4.4)	1.9		8.0
<b>Two Year Loss Development (000 omitted)</b>					
72. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2 - Summary, Line 12, Col. 12)	620	(559)	3,679	3,327	2,992
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)	1.4	(1.4)	10.5	9.8	9.8

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

Description		1	2	3	4
		Book/Adjusted Carrying Value	Fair Value	Actual Cost	Par Value of Bonds
<b>BONDS</b>  Governments (Including all obligations guaranteed by governments)	1. United States .....	76,897,626	75,886,019	76,995,109	76,575,284
	2. Canada .....				
	3. Other Countries .....				
	4. Totals	76,897,626	75,886,019	76,995,109	76,575,284
States, Territories and Possessions (Direct and guaranteed)	5. United States .....	7,123,803	7,190,061	7,122,985	7,290,000
	6. Canada .....				
	7. Other Countries .....				
	8. Totals	7,123,803	7,190,061	7,122,985	7,290,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States .....	6,037,529	6,037,110	6,037,366	6,100,000
	10. Canada .....				
	11. Other Countries .....				
	12. Totals	6,037,529	6,037,110	6,037,366	6,100,000
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States .....	49,918,953	49,770,049	49,941,465	50,124,583
	14. Canada .....				
	15. Other Countries .....				
	16. Totals	49,918,953	49,770,049	49,941,465	50,124,583
Public Utilities (unaffiliated)	17. United States .....	5,992,576	6,004,050	6,016,920	6,000,000
	18. Canada .....				
	19. Other Countries .....				
	20. Totals	5,992,576	6,004,050	6,016,920	6,000,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States .....	24,263,040	24,242,856	24,331,849	29,038,090
	22. Canada .....				
	23. Other Countries .....				
	24. Totals	24,263,040	24,242,856	24,331,849	29,038,090
Parent, Subsidiaries and Affiliates	25. Totals				
	<b>26. Total Bonds</b>	170,233,527	169,130,145	170,445,694	175,127,957
<b>PREFERRED STOCKS</b>  Public Utilities (unaffiliated)	27. United States .....				
	28. Canada .....				
	29. Other Countries .....				
	30. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	31. United States .....				
	32. Canada .....				
	33. Other Countries .....				
	34. Totals				
Industrial and Miscellaneous (unaffiliated)	35. United States .....				
	36. Canada .....				
	37. Other Countries .....				
	38. Totals				
Parent, Subsidiaries and Affiliates	39. Totals				
	<b>40. Total Preferred Stocks</b>				
<b>COMMON STOCKS</b>  Public Utilities (unaffiliated)	41. United States .....				
	42. Canada .....				
	43. Other Countries .....				
	44. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	45. United States .....				
	46. Canada .....				
	47. Other Countries .....				
	48. Totals				
Industrial and Miscellaneous (unaffiliated)	49. United States .....	5,480,511	5,480,511	5,304,482	
	50. Canada .....				
	51. Other Countries .....				
	52. Totals	5,480,511	5,480,511	5,304,482	
Parent, Subsidiaries and Affiliates	53. Totals				
	<b>54. Total Common Stocks</b>	5,480,511	5,480,511	5,304,482	
	55. Total Stocks	5,480,511	5,480,511	5,304,482	
	56. Total Bonds and Stocks	175,714,038	174,610,656	175,750,176	

SCHEDULE D - VERIFICATION BETWEEN YEARS  
Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year .....	140,398,327	7. Amortization of premium .....	140,518
2. Cost of bonds and stocks acquired, Column 7, Part 3 .....	69,104,104	8. Foreign Exchange Adjustment:	
3. Accrual of discount .....	111,824	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 .....	47,355	9. Book/adjusted carrying value at end of current period .....	175,714,038
4.4 Column 11 - 13, Part 4 .....	(50,141)	10. Total valuation allowance .....	
5. Total gain (loss), Column 19, Part 4 .....	(7,169)	11. Subtotal (Lines 9 plus 10) .....	175,714,038
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4 .....	33,749,744	12. Total nonadmitted amounts .....	
		13. Statement value of bonds and stocks, current period .....	175,714,038

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	922	203	158	31	33	12	10	867	X X X
2. 1997	62,329	9,843	52,486	39,934	6,877	3,233	470	4,475	668	1,569	39,627	X X X
3. 1998	71,320	13,048	58,272	47,501	11,804	3,641	743	5,802	1,377	1,604	43,020	X X X
4. 1999	66,102	9,744	56,358	46,493	8,380	3,379	518	5,697	1,021	1,583	45,650	X X X
5. 2000	62,820	7,784	55,036	44,108	6,866	3,268	311	5,067	596	1,469	44,670	X X X
6. 2001	67,414	9,137	58,277	41,929	6,781	3,300	242	4,892	642	1,402	42,456	X X X
7. 2002	92,068	21,968	70,100	49,830	11,013	3,421	712	4,391	919	1,402	44,998	X X X
8. 2003	105,982	18,164	87,818	47,304	9,356	3,102	506	6,695	1,150	1,538	46,089	X X X
9. 2004	108,900	10,170	98,730	41,136	3,408	1,850	164	5,854	444	1,651	44,824	X X X
10. 2005	114,500	6,810	107,690	37,992	3,960	1,400	164	6,142	290	1,361	41,120	X X X
11. 2006	118,132	6,062	112,070	25,176	699	526	2	5,341	460	687	29,882	X X X
12. Totals	X X X	X X X	X X X	422,325	69,347	27,278	3,863	54,389	7,579	14,276	423,203	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	7,020	1,990	1,249	874			329	63	309	24	6	5,956	X X X
2. 1997	1,509	487	519	356			94	8	69	5	10	1,335	X X X
3. 1998	1,985	1,020	571	385			119	11	94	6	15	1,347	X X X
4. 1999	2,036	1,108	665	426			170	16	119	7	21	1,433	X X X
5. 2000	2,161	1,459	1,121	578			293	27	179	11	30	1,679	X X X
6. 2001	2,309	1,308	1,455	512			381	39	239	14	62	2,511	X X X
7. 2002	4,071	1,067	2,384	753			963	64	371	20	144	5,885	X X X
8. 2003	3,606	1,246	3,771	1,186			1,112	92	622	32	213	6,555	X X X
9. 2004	9,945	1,224	7,958	1,277			2,941	125	939	45	366	19,112	X X X
10. 2005	12,985	1,030	11,121	1,816			3,767	165	1,729	75	464	26,516	X X X
11. 2006	18,761	545	20,429	1,017			4,970	27	3,239	150	859	45,660	X X X
12. Totals	66,388	12,484	51,243	9,180			15,139	637	7,909	389	2,190	117,989	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	5,405	551
2. 1997	49,833	8,871	40,962	79.952	90.125	78.044			3.270	1,185	150
3. 1998	59,713	15,346	44,367	83.725	117.612	76.138			3.270	1,151	196
4. 1999	58,559	11,476	47,083	88.589	117.775	83.543			3.270	1,167	266
5. 2000	56,197	9,848	46,349	89.457	126.516	84.216			3.270	1,245	434
6. 2001	54,505	9,538	44,967	80.851	104.389	77.161			3.270	1,944	567
7. 2002	65,431	14,548	50,883	71.068	66.224	72.586			3.270	4,635	1,250
8. 2003	66,212	13,568	52,644	62.475	74.697	59.947			3.270	4,945	1,610
9. 2004	70,623	6,687	63,936	64.851	65.752	64.758			3.270	15,402	3,710
10. 2005	75,136	7,500	67,636	65.621	110.132	62.806			3.270	21,260	5,256
11. 2006	78,442	2,900	75,542	66.402	47.839	67.406			3.270	37,628	8,032
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	95,967	22,022

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	37,447	37,398	36,856	36,377	35,344	36,424	36,491	36,225	36,860	36,930	70	705
2. 1997	35,985	36,804	36,549	36,427	36,463	36,496	36,611	36,706	37,055	37,112	57	406
3. 1998	X X X	39,416	38,999	38,852	38,933	38,780	38,905	39,452	39,860	39,899	39	447
4. 1999	X X X	X X X	39,320	39,978	40,333	40,934	41,282	41,787	42,116	42,359	243	572
5. 2000	X X X	X X X	X X X	38,248	39,914	40,478	41,248	41,121	41,410	41,756	346	635
6. 2001	X X X	X X X	X X X	X X X	39,561	39,109	39,698	40,345	40,312	40,558	246	213
7. 2002	X X X	X X X	X X X	X X X	X X X	46,420	47,465	47,333	46,900	47,138	238	(195)
8. 2003	X X X	X X X	X X X	X X X	X X X	X X X	47,697	46,669	46,145	46,609	464	(60)
9. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	59,834	57,812	57,731	(81)	(2,103)
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	63,559	60,189	(3,370)	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	67,596	X X X	X X X
12. Totals											(1,748)	620

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	14,867	20,518	23,731	26,069	27,568	28,367	28,871	29,810	30,656	X X X	X X X
2. 1997	16,931	25,840	29,984	32,517	34,028	34,790	35,264	35,570	35,674	35,820	X X X	X X X
3. 1998	X X X	18,378	27,853	32,340	34,768	36,273	37,161	37,787	38,116	38,595	X X X	X X X
4. 1999	X X X	X X X	19,153	29,214	33,894	36,914	38,494	39,840	40,479	40,974	X X X	X X X
5. 2000	X X X	X X X	X X X	18,728	29,257	33,991	36,802	38,435	39,427	40,199	X X X	X X X
6. 2001	X X X	X X X	X X X	X X X	18,547	28,635	32,896	35,914	37,101	38,206	X X X	X X X
7. 2002	X X X	X X X	X X X	X X X	X X X	18,095	29,500	35,265	39,478	41,526	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	20,905	31,852	37,228	40,544	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	20,686	33,551	39,414	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	21,759	35,268	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	25,001	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	12,002	8,252	5,232	3,986	2,680	2,544	3,329	1,588	1,295	641
2. 1997	9,084	4,519	2,136	1,243	660	429	338	232	231	249
3. 1998	X X X	10,039	3,964	2,530	1,629	826	454	553	388	294
4. 1999	X X X	X X X	8,636	3,905	2,276	1,231	697	796	392	393
5. 2000	X X X	X X X	X X X	7,883	4,408	2,585	1,644	1,129	529	809
6. 2001	X X X	X X X	X X X	X X X	8,994	4,671	2,168	1,956	921	1,285
7. 2002	X X X	X X X	X X X	X X X	X X X	16,940	8,684	3,854	2,730	2,530
8. 2003	X X X	X X X	X X X	X X X	X X X	X X X	12,877	6,214	4,227	3,605
9. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	21,917	12,880	9,497
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	25,045	12,907
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	24,355

**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	NO	1,520	1,520				7	
2. Alaska	AK	NO							
3. Arizona	AZ	YES	1,325,304	1,390,226	714,434	1,506,579	2,376,741	5,718	
4. Arkansas	AR	YES	1,853,500	1,449,152	277,656	597,548	837,619	7,996	
5. California	CA	YES	54,624,122	53,469,521	34,871,739	33,966,356	38,740,619	235,662	
6. Colorado	CO	YES							
7. Connecticut	CT	YES	42,411,102	39,788,194	452,413	15,396,073	22,444,962	33,528,456	182,972
8. Delaware	DE	YES	1,217,704	811,873		144,643	787,018	1,193,902	5,253
9. Dist. Columbia	DC	YES	636,783	401,130		39,326	77,508	68,337	2,747
10. Florida	FL	NO	(191)	(284)		(5,000)		(1)	
11. Georgia	GA	YES	21,051,380	17,103,575	354	4,776,773	8,859,066	10,685,824	90,821
12. Hawaii	HI	NO		(63)					
13. Idaho	ID	YES							
14. Illinois	IL	YES	44,364,458	40,417,607		17,542,242	28,908,086	34,019,247	191,399
15. Indiana	IN	YES	48,281,316	39,731,026	77,878	17,657,032	26,060,695	22,436,792	208,298
16. Iowa	IA	YES	2,989,306	2,340,175		814,505	1,254,017	1,328,727	12,897
17. Kansas	KS	YES	1,581,245	1,233,025		214,262	368,126	169,608	6,822
18. Kentucky	KY	YES	35,564,224	31,544,280		10,848,480	16,676,642	15,033,191	153,433
19. Louisiana	LA	YES	2,663,909	2,421,307		4,386,051	2,893,921	1,648,657	11,493
20. Maine	ME	YES	8,537,837	6,974,742		3,430,403	6,960,532	11,261,350	36,834
21. Maryland	MD	YES	9,500,267	8,138,248	4,426	2,619,556	6,397,806	6,245,395	40,986
22. Massachusetts	MA	YES	11,942,577	11,114,501		2,450,559	3,476,180	4,015,280	51,523
23. Michigan	MI	YES	27,579,250	24,232,932		10,436,358	13,138,176	12,850,104	118,984
24. Minnesota	MN	YES	7,637,277	5,998,242		2,045,400	4,065,315	5,424,372	32,949
25. Mississippi	MS	NO							
26. Missouri	MO	YES	12,600,702	9,016,530		3,204,270	7,663,358	4,681,656	54,363
27. Montana	MT	NO							
28. Nebraska	NE	YES	2,057,061	1,924,739		565,202	1,116,935	1,150,361	8,875
29. Nevada	NV	YES					120		
30. New Hampshire	NH	YES	13,296,491	12,634,191	14,871	6,981,093	10,120,140	9,855,477	57,364
31. New Jersey	NJ	YES	37,253,267	35,767,974	460,295	15,896,035	22,303,653	36,934,193	160,720
32. New Mexico	NM	NO							
33. New York	NY	YES	49,074,220	46,618,762	931,916	16,159,229	23,198,278	39,792,483	211,718
34. No. Carolina	NC	YES	11,064,350	9,623,601	4,602	6,229,542	5,964,709	8,796,470	47,734
35. No. Dakota	ND	NO							
36. Ohio	OH	YES	55,090,466	51,012,790		15,798,899	21,193,992	29,558,548	237,674
37. Oklahoma	OK	YES	5,427,230	5,270,584		1,520,049	1,698,405	3,085,677	23,414
38. Oregon	OR	YES							
39. Pennsylvania	PA	YES	42,142,697	40,036,950	17,196	14,643,165	25,442,731	30,003,997	181,814
40. Rhode Island	RI	YES	14,229,900	11,561,623	3,578	3,736,370	4,728,280	7,218,299	61,391
41. So. Carolina	SC	YES	5,152,066	4,121,394		1,858,675	3,534,493	2,748,843	22,227
42. So. Dakota	SD	NO							
43. Tennessee	TN	YES	30,443,568	27,937,303	3,776	13,287,773	17,585,763	17,483,324	131,341
44. Texas	TX	YES	19,246,512	19,171,484		6,624,135	11,758,092	15,043,928	83,034
45. Utah	UT	YES	(246)	(252)			19		(1)
46. Vermont	VT	YES	4,702,279	4,272,929	384	1,547,453	5,186,263	8,542,598	20,287
47. Virginia	VA	YES	7,091,009	6,416,092	15,236	2,053,418	3,300,329	4,517,225	30,592
48. Washington	WA	YES							
49. West Virginia	WV	NO							
50. Wisconsin	WI	YES	4,889,623	4,755,997	9,987	1,347,842	1,503,755	2,319,627	21,095
51. Wyoming	WY	NO							
52. American Samoa	AS	NO							
53. Guam	GU	NO							
54. Puerto Rico	PR	NO							
55. U.S. Virgin Islands	VI	NO							
56. Northern Mariana Islands	MP	NO							
57. Canada	CN	NO							
58. Aggregate other alien	OT	X X X							
59. Totals	(a) 40		637,524,085	578,703,620	1,996,912	240,118,642	344,732,848	423,596,927	2,750,435

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

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

- \*Location of coverage - Fire, Allied Lines, Homeowners Multi Peril, Commercial Multi Peril, Earthquake, Boiler and Machinery

\*States of Jurisdiction under which payrolls and resulting premiums are developed - Worker's Compensation

\*Location of Principal place of garaging of each individual car - Auto Liability, Auto Physical Damage

\*Principal Location of business or location of coverage - Liability other than Auto, Fidelity

\*Point of origin of shipment or principal location of assured - Inland Marine

\*State in which employees regularly work - Group Accident and Health
- \*Location of Court - Surety

\*Address of Assured - Other Accident and Health

\*Location of Properties covered - Burglary and Theft

\*Principal Location of Assured - Ocean Marine, Credit

\*Primary residence of Assured - Aircraft (all perils)



