

**ANNUAL STATEMENT**

OF THE

**LIBERTY MUTUAL INSURANCE COMPANY**

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of

in the state of

**BOSTON**

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TO THE

**Insurance Department**

OF THE

**STATE OF MASSACHUSETTS**

**FOR THE YEAR ENDED**

**December 31, 2004**

PROPERTY AND CASUALTY

**2004**



23043200420100100

**ANNUAL STATEMENT**

For the Year Ended December 31, 2004

OF THE CONDITION AND AFFAIRS OF THE

**Liberty Mutual Insurance Company**

NAIC Group Code 0111 0111 NAIC Company Code 23043 Employer's ID Number 04-1543470  
 (Current Period) (Prior Period)

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

Country of Domicile United States of America

Incorporated: January 1, 1912 Commenced Business: July 1, 1912

Statutory Home Office: 175 Berkeley Street Boston, MA 02117

Main Administrative Office: 175 Berkeley Street Boston, MA 02117 617-357-9500

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.LibertyMutual.com

Statutory Statement Contact: Steven Latham 617-357-9500 43660  
Steven.Latham@LibertyMutual.com 617-574-5955  
 (E-Mail Address) (Fax Number)

Policyowner Relations Contact: 175 Berkeley Street Boston, MA 02117 617-357-9500 41015

**OFFICERS**

	Name	Title
1.	<u>Edmund Francis Kelly</u>	<u>Chairman of the Board, President &amp; CEO</u>
2.	<u>Dexter Robert Legg</u>	<u>Vice President &amp; Secretary</u>
3.	<u>Laurance Henry Soyer Yahia</u>	<u>Senior Vice President &amp; Treasurer</u>

**Vice-Presidents**

Name	Title	Name	Title
<u>James Paul Condrin, III</u>	<u>Executive Vice President</u>	<u>Stuart Michael McGuigan</u>	<u>Sr. VP &amp; Chief Information Officer</u>
<u>Anthony Alexander Fontanes</u>	<u>Sr. VP &amp; Chief Investment Officer</u>	<u>Gary Richard Gregg</u>	<u>Executive Vice President</u>
<u>Dennis James Langwell</u>	<u>Sr. VP &amp; Chief Financial Officer</u>	<u>Christopher Charles Mansfield</u>	<u>Sr. VP &amp; General Counsel</u>
<u>Thomas Crawford Ramey</u>	<u>Executive Vice President</u>	<u>Helen Elizabeth Russell Sayles</u>	<u>Senior Vice President</u>
<u>Roger Lucien Jean</u>	<u>Executive Vice President</u>	<u>Stephen Gregory Sullivan</u>	<u>Senior Vice President</u>
<u>John Derek Doyle</u>	<u>Vice President &amp; Comptroller</u>	<u>Robert Thomas Muleski</u>	<u>Vice President &amp; Corporate Actuary</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

**DIRECTORS OR TRUSTEES**

<u>Edmund Francis Kelly</u>	<u>James Paul Condrin, III</u>	<u>Dennis James Langwell</u>	<u>Anthony Alexander Fontanes</u>
<u>Gary Richard Gregg</u>	<u>Christopher Charles Mansfield</u>	<u>Thomas Crawford Ramey</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.

\_\_\_\_\_  
 (Signature)  
Edmund Francis Kelly  
 (Printed Name)  
 1.  
Chairman of the Board, President & CEO  
 (Title)

\_\_\_\_\_  
 (Signature)  
Dexter Robert Legg  
 (Printed Name)  
 2.  
Vice President & Secretary  
 (Title)

\_\_\_\_\_  
 (Signature)  
Laurance Henry Soyer Yahia  
 (Printed Name)  
 3.  
Senior Vice President & Treasurer  
 (Title)

Subscribed and sworn to before me this \_\_\_\_\_ day of April, 2005

- a. Is this an original filing? YES [ ] NO [ X ]  
 b. If no: 1. State the amendment number 1  
 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)	11,780,170,508		11,780,170,508	10,155,163,434
2. Stocks (Schedule D):				
2.1 Preferred stocks	100,083,886		100,083,886	120,146,803
2.2 Common stocks	4,971,839,607		4,971,839,607	5,204,104,751
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)	243,801,947		243,801,947	214,376,886
4.2 Properties held for the production of income (less \$ 0 encumbrances)	1,137,939		1,137,939	1,056,090
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ 137,665,821, Schedule E-Part 1), cash equivalents (\$ 103,709,476, Schedule E-Part 2) and short-term investments (\$ 443,067,966, Schedule DA)	684,443,263		684,443,263	423,217,719
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)	2,168,663,950		2,168,663,950	973,135,974
8. Receivable for securities	37,646,647		37,646,647	10,821,182
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	19,987,787,747		19,987,787,747	17,102,022,839
11. Investment income due and accrued	147,367,617		147,367,617	130,435,960
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in the course of collection	628,209,115	18,816,975	609,392,140	673,579,903
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 0 earned but unbilled premiums)	1,273,321,091		1,273,321,091	973,405,672
12.3 Accrued retrospective premiums	566,977,557	57,036,114	509,941,443	503,447,580
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers	344,030,984		344,030,984	324,809,376
13.2 Funds held by or deposited with reinsured companies	23,934,810		23,934,810	681,442,561
13.3 Other amounts receivable under reinsurance contracts				
14. Amounts receivable relating to uninsured plans	2,521,073	2,521,073		
15.1 Current federal and foreign income tax recoverable and interest thereon	30,908,631		30,908,631	
15.2 Net deferred tax asset	932,621,000	400,482,461	532,138,539	432,875,471
16. Guaranty funds receivable or on deposit	37,427,058		37,427,058	28,941,454
17. Electronic data processing equipment and software	128,484,155	86,812,225	41,671,930	49,014,308
18. Furniture and equipment, including health care delivery assets (\$ 0 )	16,206,912	16,206,912		
19. Net adjustment in assets and liabilities due to foreign exchange rates				
20. Receivables from parent, subsidiaries and affiliates				938,737,486
21. Health care (\$ 0 ) and other amounts receivable				
22. Other assets nonadmitted	36,247,922	36,247,922		
23. Aggregate write-ins for other than invested assets	493,196,112	74,153,434	419,042,678	306,439,038
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	24,649,241,784	692,277,116	23,956,964,668	22,145,151,648
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	24,649,241,784	692,277,116	23,956,964,668	22,145,151,648

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 + 0998) (Line 9 above)				
2301. Other assets	188,924,030	69,974,656	118,949,374	27,447,159
2302. Cash surrender value life insurance	125,957,107		125,957,107	104,600,739
2303. Equities and deposits in pools and associations	20,076,819		20,076,819	30,417,339
2398. Summary of remaining write-ins for Line 23 from overflow page	158,238,156	4,178,778	154,059,378	143,973,801
2399. Totals (Lines 2301 through 2303 + 2398) (Line 23 above)	493,196,112	74,153,434	419,042,678	306,439,038

<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	8,904,510,525	8,334,384,830
2. Reinsurance payable on paid loss and loss adjustment expenses (Schedule F, Part 1, Column 6)	38,306,568	29,467,012
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	1,698,423,690	1,648,044,862
4. Commissions payable, contingent commissions and other similar charges	90,474,680	77,518,988
5. Other expenses (excluding taxes, licenses and fees)	326,334,460	297,417,888
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	201,866,428	227,063,137
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))		57,144,082
7.2 Net deferred tax liability		
8. Borrowed money \$ 27,650,282 and interest thereon \$ 404,263	28,054,545	38,828,782
9. Unearned premiums (Part 1A, Line 37, Column 5) (after deducting unearned premiums for ceded reinsurance of \$ 2,339,696,890 and including warranty reserves of \$ 0 )	2,682,556,143	2,423,884,665
10. Advance premium	24,938,687	24,228,007
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders	2,386,953	2,217,160
12. Ceded reinsurance premiums payable (net of ceding commissions)	501,805,061	534,723,921
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	2,187,584,513	2,293,414,541
14. Amounts withheld or retained by company for account of others	170,375,043	71,237,910
15. Remittances and items not allocated		
16. Provision for reinsurance (Schedule F, Part 7)	131,753,865	142,998,781
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding	244,683,699	257,130,803
19. Payable to parent, subsidiaries and affiliates	42,362,549	
20. Payable for securities	128,000,354	150,878,309
21. Liability for amounts held under uninsured accident and health plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	(702,803,013)	(588,526,364)
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	16,701,614,750	16,022,057,314
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	16,701,614,750	16,022,057,314
27. Aggregate write-ins for special surplus funds	757,681,198	702,727,523
28. Common capital stock	10,000,000	10,000,000
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds	1,250,000	1,250,000
31. Surplus notes	1,012,850,926	1,141,346,459
32. Gross paid in and contributed surplus	2,004,071,957	1,430,234,931
33. Unassigned funds (surplus)	3,469,495,837	2,837,535,421
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 38)	7,255,349,918	6,123,094,334
36. TOTALS (Page 2, Line 26, Col. 3)	23,956,964,668	22,145,151,648

<b>DETAILS OF WRITE-INS</b>		
2301. Amounts held under uninsured plans	447,633,169	343,142,987
2302. Other liabilities	185,142,261	259,757,476
2303. Retroactive reinsurance reserve - ceded	(1,469,760,174)	(1,363,066,452)
2398. Summary of remaining write-ins for Line 23 from overflow page	134,181,731	171,639,625
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	(702,803,013)	(588,526,364)
2701. Special surplus from retroactive reinsurance	757,681,198	702,727,523
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)	757,681,198	702,727,523
3001. Guaranty funds	1,250,000	1,250,000
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)	1,250,000	1,250,000

<b>UNDERWRITING AND INVESTMENT EXHIBIT STATEMENT OF INCOME</b>	1	2
<b>UNDERWRITING INCOME</b>	Current Year	Prior Year
1. Premiums earned (Part 1, Line 34, Column 4)	6,451,473,219	5,535,598,779
DEDUCTIONS		
2. Losses incurred (Part 2, Line 34, Column 7)	4,289,072,685	3,676,914,209
3. Loss expenses incurred (Part 3, Line 25, Column 1)	1,052,596,261	1,058,547,935
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	1,605,663,162	1,352,456,290
5. Aggregate write-ins for underwriting deductions	1,244,734	423,969
6. Total underwriting deductions (Lines 2 through 5)	6,948,576,842	6,088,342,403
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	(497,103,623)	(552,743,624)
<b>INVESTMENT INCOME</b>		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	622,787,370	734,894,495
10. Net realized capital gains (losses) (Exhibit of Capital Gains (Losses))	199,729,891	49,149,801
11. Net investment gain (loss) (Lines 9 + 10)	822,517,261	784,044,296
<b>OTHER INCOME</b>		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 614,514 amount charged off \$ 31,675,459 )	(31,060,945)	(29,254,437)
13. Finance and service charges not included in premiums	39,542,359	33,742,955
14. Aggregate write-ins for miscellaneous income	(129,124,269)	(153,798,988)
15. Total other income (Lines 12 through 14)	(120,642,855)	(149,310,470)
16. Net income before dividends to policyholders and before federal and foreign income taxes (Lines 8 + 11 + 15)	204,770,783	81,990,202
17. Dividends to policyholders	26,222,615	(1,517,657)
18. Net income, after dividends to policyholders but before federal and foreign income taxes (Line 16 minus Line 17)	178,548,168	83,507,859
19. Federal and foreign income taxes incurred	(38,311,422)	(10,157,457)
20. Net income (Line 18 minus Line 19) (to Line 22)	216,859,590	93,665,316
<b>CAPITAL AND SURPLUS ACCOUNT</b>		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 38, Column 2)	6,123,094,334	4,007,749,220
<b>GAINS AND (LOSSES) IN SURPLUS</b>		
22. Net income (from Line 20)	216,859,590	93,665,316
23. Change in net unrealized capital gains or (losses)	373,180,256	568,313,452
24. Change in net unrealized foreign exchange capital gain (loss)		
25. Change in net deferred income tax	(4,234,421)	78,271,677
26. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	68,545,751	153,591
27. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	11,244,916	36,728,329
28. Change in surplus notes	(128,495,533)	163,830
29. Surplus (contributed to) withdrawn from protected cells		
30. Cumulative effect of changes in accounting principles		
31. Capital changes:		
31.1 Paid in		
31.2 Transferred from surplus (Stock Dividend)		
31.3 Transferred to surplus		
32. Surplus adjustments:		
32.1 Paid in	574,433,074	1,348,748,248
32.2 Transferred to capital (Stock Dividend)		
32.3 Transferred from capital		
33. Net remittances from or (to) Home Office		
34. Dividends to stockholders		
35. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)		
36. Aggregate write-ins for gains and losses in surplus	20,721,951	(10,699,329)
37. Change in surplus as regards policyholders for the year (Lines 22 through 36)	1,132,255,584	2,115,345,114
38. Surplus as regards policyholders, December 31 current year (Lines 21 plus Line 37) (Page 3, Line 35)	7,255,349,918	6,123,094,334
<b>DETAILS OF WRITE-INS</b>		
0501. North Carolina 2004 private passenger auto escrow	1,244,734	423,969
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)	1,244,734	423,969
1401. Other income (expense)	(144,836,996)	(122,817,510)
1402. Retroactive reinsurance gain/loss	15,712,727	(30,981,478)
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)	(129,124,269)	(153,798,988)
3601. Other surplus items	(1,169,190)	(78,568,923)
3602. Change in accumulated translation adjustment	21,891,141	67,869,594
3603.		
3698. Summary of remaining write-ins for Line 36 from overflow page		
3699. Totals (Lines 3601 through 3603 plus Line 3698) (Line 36 above)	20,721,951	(10,699,329)

<b>CASH FLOW</b>	1	2
	Current Year	Prior Year
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance	6,413,678,126	5,698,367,927
2. Net investment income	719,978,291	853,261,846
3. Miscellaneous income	555,456,320	251,244,593
4. Total (Lines 1 through 3)	7,689,112,737	6,802,874,366
5. Benefit and loss related payments	3,744,112,282	3,165,444,183
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	2,588,846,582	2,279,846,305
8. Dividends paid to policyholders	21,117,151	31,909,639
9. Federal and foreign income taxes paid (recovered) \$ 0 net of tax on capital gains (losses)	31,111,220	81,862,715
10. Total (Lines 5 through 9)	6,385,187,235	5,559,062,842
11. Net cash from operations (Line 4 minus Line 10)	1,303,925,502	1,243,811,524
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	6,469,118,462	7,349,057,456
12.2 Stocks	2,544,732,907	1,704,287,394
12.3 Mortgage loans		
12.4 Real estate		1,933,119
12.5 Other invested assets	123,629,311	82,193,000
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	103,797	(1,392,926)
12.7 Miscellaneous proceeds		
12.8 Total investment proceeds (Lines 12.1 to 12.7)	9,137,584,477	9,136,078,043
13. Cost of investments acquired (long-term only):		
13.1 Bonds	7,941,094,633	8,707,631,787
13.2 Stocks	1,700,900,115	1,765,914,802
13.3 Mortgage loans		
13.4 Real estate	38,790,593	44,657,264
13.5 Other invested assets	1,474,480,045	295,582,110
13.6 Miscellaneous applications	15,243,992	280,810,205
13.7 Total investments acquired (Lines 13.1 to 13.6)	11,170,509,378	11,094,596,168
14. Net increase (decrease) in policy loans and premium notes		
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	(2,032,924,901)	(1,958,518,125)
<b>Cash from Financing and Miscellaneous Sources</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	(128,495,533)	323,988
16.2 Capital and paid in surplus, less treasury stock	574,433,074	1,348,588,089
16.3 Borrowed funds	(10,774,237)	(404,843,608)
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders		
16.6 Other cash provided (applied)	555,061,639	(911,609,390)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	990,224,943	32,459,079
<b>RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash and short-term investments (Line 11, plus Lines 15 and 17)	261,225,544	(682,247,522)
19. Cash and short-term investments:		
19.1 Beginning of year	423,217,719	1,105,465,241
19.2 End of year (Line 18 plus Line 19.1)	684,443,263	423,217,719

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

20.0001.		
20.0002.		
20.0003.		

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 1- PREMIUMS EARNED**

Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire	121,256,352	49,035,893	62,030,634	108,261,611
2. Allied lines	40,164,075	19,945,765	22,683,790	37,426,050
3. Farmowners multiple peril	(2,402,730)	2,402,730		
4. Homeowners multiple peril	770,225,301	405,923,417	458,873,921	717,274,797
5. Commercial multiple peril	113,923,005	89,579,125	56,332,002	147,170,128
6. Mortgage guaranty				
8. Ocean marine	19,722,040	29,347,166	27,931,959	21,137,247
9. Inland marine	40,245,064	23,927,371	23,914,418	40,258,017
10. Financial guaranty				
11.1 Medical malpractice - occurrence	(11,718)	8,686	643	(3,675)
11.2 Medical malpractice - claims-made				
12. Earthquake	20,836,206	8,121,692	9,380,022	19,577,876
13. Group accident and health	(5,408,941)	738,412		(4,670,529)
14. Credit accident and health (group and individual)				
15. Other accident and health	93,810	1,254	5,824	89,240
16. Workers' compensation	2,068,114,139	(206,942,817)	(173,138,061)	2,034,309,383
17.1 Other liability - occurrence	323,883,938	82,288,149	102,354,600	303,817,487
17.2 Other liability - claims-made	65,235,322	43,678,783	43,702,837	65,211,268
18.1 Products liability - occurrence	25,689,325	(616,325)	5,860,629	19,212,371
18.2 Products liability - claims-made	1,572,876	33,999		1,606,875
19.1, 19.2 Private passenger auto liability	1,610,863,653	678,986,698	775,977,286	1,513,873,065
19.3, 19.4 Commercial auto liability	288,360,446	85,780,944	91,088,698	283,052,692
21. Auto physical damage	971,160,934	475,656,055	521,411,638	925,405,351
22. Aircraft (all perils)	42,889,445	6,982,401	12,429,889	37,441,957
23. Fidelity	2,556,618	1,283,359	1,224,547	2,615,430
24. Surety	96,933,892	60,583,592	66,028,338	91,489,146
26. Burglary and theft	266,026	192,192	194,952	263,266
27. Boiler and machinery	1,378,730	793,087	734,561	1,437,256
28. Credit				
29. International				
30. Reinsurance-Nonproportional Assumed Property	26,486,055	1,792,161	1,738,481	26,539,735
31. Reinsurance-Nonproportional Assumed Liability	54,445,326	7,849,252	4,760,950	57,533,628
32. Reinsurance-Nonproportional Assumed Financial Lines				
33. Aggregate write-ins for other lines of business				
34. TOTALS	6,698,479,189	1,867,373,041	2,115,522,558	6,450,329,672

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

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

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

Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (b)	2 Amount Unearned (Running More Than One Year from Date of Policy) (b)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1. Fire	58,085,568	3,945,066			62,030,634
2. Allied lines	22,051,892	631,899			22,683,790
3. Farmowners multiple peril					
4. Homeowners multiple peril	458,870,176	3,744			458,873,921
5. Commercial multiple peril	55,430,792	930,833		(29,624)	56,332,002
6. Mortgage guaranty					
8. Ocean marine	27,931,838	121			27,931,959
9. Inland marine	23,861,894	52,525			23,914,418
10. Financial guaranty					
11.1 Medical malpractice - occurrence	643				643
11.2 Medical malpractice - claims-made					
12. Earthquake	8,896,828	483,194			9,380,022
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health	5,824				5,824
16. Workers' compensation	288,216,391	36,690,941		(498,045,392)	(173,138,061)
17.1 Other liability - occurrence	106,907,186	25,311,327		(29,863,913)	102,354,600
17.2 Other liability - claims-made	43,702,837				43,702,837
18.1 Products liability - occurrence	5,652,162	12,461,316		(12,252,850)	5,860,629
18.2 Products liability - claims-made					
19.1, 19.2 Private passenger auto liability	775,977,286				775,977,286
19.3, 19.4 Commercial auto liability	119,090,932	891		(28,003,124)	91,088,698
21. Auto physical damage	521,221,273	191,934		(1,570)	521,411,637
22. Aircraft (all perils)	12,429,889				12,429,889
23. Fidelity	1,216,940	7,607			1,224,547
24. Surety	36,525,083	28,340,367		1,162,888	66,028,338
26. Burglary and theft	192,614	2,339			194,952
27. Boiler and machinery	634,577	99,984			734,561
28. Credit					
29. International					
30. Reinsurance-Nonproportional Assumed Property	1,738,481				1,738,481
31. Reinsurance-Nonproportional Assumed Liability	4,760,950				4,760,950
32. Reinsurance-Nonproportional Assumed Financial Lines					
33. Aggregate write-ins for other lines of business					
34. TOTALS	2,573,402,055	109,154,088		(567,033,585)	2,115,522,558
35. Accrued retrospective premiums based on experience					567,033,585
36. Earned but unbilled premiums					
37. Balance (Sum of Line 34 through 36)					2,682,556,143

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

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



## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 1B - PREMIUMS WRITTEN

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

Line of Business	1	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
	Direct Business (a)	2 From Affiliates	3 From Non- Affiliates	4 To Affiliates	5 To Non- Affiliates	
1. Fire	19,212,022	175,308,609	3,256,934	59,108,313	17,412,900	121,256,352
2. Allied lines	2,339,335	87,730,478	611,692	19,024,543	31,492,886	40,164,076
3. Farmowners multiple peril		(3,801,788)		(1,399,058)		(2,402,730)
4. Homeowners multiple peril	(5,306,439)	1,310,715,498	769,259	421,093,241	115,004,474	770,080,603
5. Commercial multiple peril	58,364,481	160,030,469	16,009,897	55,933,648	64,548,193	113,923,006
6. Mortgage guaranty						
8. Ocean marine	18,209,744	6,478,816	5,911,597	7,632,254	3,245,863	19,722,040
9. Inland marine	46,712,145	34,776,527	26,231,811	18,679,075	48,796,345	40,245,063
10. Financial guaranty						
11.1 Medical malpractice - occurrence	910	(19,522)	1	(6,893)		(11,718)
11.2 Medical malpractice - claims-made						
12. Earthquake	88,396	32,680,546	(121)	10,055,570	1,877,043	20,836,208
13. Group accident and health	1,403	237,871,094	10,025	243,291,463		(5,408,941)
14. Credit accident and health (group and individual)						
15. Other accident and health	139,278			47,159	(1,691)	93,810
16. Workers' compensation	493,133,968	3,567,713,536	178,705,456	1,085,644,279	1,086,155,327	2,067,753,354
17.1 Other liability - occurrence	241,141,565	568,787,697	2,497,957	291,967,597	196,575,684	323,883,938
17.2 Other liability - claims-made	167,173,301	64,278,014	119,833	33,256,700	133,079,126	65,235,322
18.1 Products liability - occurrence	100,545,874	101,736,067	(900,383)	147,767,853	27,924,379	25,689,326
18.2 Products liability - claims-made	1,982,508	380,050		789,681	1	1,572,876
19.1, 19.2 Private passenger auto liability	281,187,298	2,138,538,342	22,348,138	758,167,137	72,487,786	1,611,418,855
19.3, 19.4 Commercial auto liability	233,169,736	383,060,242	11,058,886	141,034,369	197,894,049	288,360,446
21. Auto physical damage	175,613,311	1,492,020,545	9,485,200	662,021,843	43,985,997	971,111,216
22. Aircraft (all perils)	105,709,856		9,335,262	21,057,709	51,097,965	42,889,444
23. Fidelity	8,370,820	292,813	(1)	1,187,152	4,919,862	2,556,618
24. Surety	167,350,764	7,745,783	1,515,530	44,074,391	35,603,794	96,933,892
26. Burglary and theft	583,003	(108,024)	2,156	119,017	92,092	266,026
27. Boiler and machinery	5,187	1,935,651	31	632,276	(70,136)	1,378,729
28. Credit						
29. International						
30. Reinsurance-Nonproportional Assumed Property	X X X	209	45,686,658	13,201,880	5,998,931	26,486,056
31. Reinsurance-Nonproportional Assumed Liability	X X X	158,538	81,112,587	26,825,799		54,445,326
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X					
33. Aggregate write-ins for other lines of business						
34. TOTALS	2,115,728,466	10,368,310,190	413,768,405	4,061,206,998	2,138,120,870	6,698,479,193

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

If yes: 1. The amount of such installment premiums \$ 7,326,892

2. Amount at which such installment premiums would have been reported had they been recorded on an annualized basis \$ 25,839,440

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

Line of Business	Losses Paid Less Salvage				5 Net Losses Unpaid Current Year (Part 2A, Col. 8)	6 Net Losses Unpaid Prior Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)				
1. Fire	2,271,240	48,568,540	21,411,240	29,428,540	47,783,509	45,545,522	31,666,526	29.250
2. Allied lines	1,713,264	42,066,873	21,851,882	21,928,255	27,209,005	22,218,322	26,918,938	71.926
3. Farmowners multiple peril		2,931,044	1,078,624	1,852,420		1,852,420	(0)	
4. Homeowners multiple peril	14,237,037	713,627,469	303,248,996	424,615,510	205,625,072	168,353,722	461,886,859	64.395
5. Commercial multiple peril	20,204,985	187,363,778	90,437,833	117,130,930	169,810,228	237,246,752	49,694,407	33.767
6. Mortgage guaranty								
8. Ocean marine	3,058,990	14,390,162	7,816,988	9,632,164	42,570,917	35,843,299	16,359,783	77.398
9. Inland marine	15,224,557	33,558,136	33,323,319	15,459,375	28,508,290	26,518,813	17,448,851	43.343
10. Financial guaranty								
11.1 Medical malpractice - occurrence		74,908	30,249	44,658	73,268	98,728	19,198	(522.408)
11.2 Medical malpractice - claims - made								
12. Earthquake	4,707	626,422	794,493	(163,363)	855,340	4,628,309	(3,936,333)	(20.106)
13. Group accident and health	562,753	878,338,489	590,045,202	288,856,039	2,580,822	320,205,584	(28,768,722)	615.963
14. Credit accident and health (group and individual)								
15. Other accident and health	666,619	252,953	463,070	456,503	2,402,434	2,963,002	(104,065)	(116.613)
16. Workers' compensation	344,575,321	2,110,977,790	1,608,844,945	846,708,166	4,670,664,833	4,088,991,853	1,428,381,145	70.215
17.1 Other liability - occurrence	224,983,434	301,127,039	283,304,518	242,805,956	1,140,770,768	970,003,294	413,573,429	136.126
17.2 Other liability - claims - made	61,308,096	7,474,748	58,444,855	10,337,989	141,084,128	87,541,104	63,881,013	97.960
18.1 Products liability - occurrence	54,785,435	51,275,309	66,346,189	39,714,555	371,809,757	374,868,090	36,656,222	190.795
18.2 Products liability - claims - made	1,900	750,625	405,874	346,650	3,593,095	2,945,089	994,657	61.900
19.1, 19.2 Private passenger auto liability	393,331,072	1,312,772,691	691,387,227	1,014,716,536	1,326,444,875	1,376,529,480	964,631,931	63.719
19.3, 19.4 Commercial auto liability	108,966,379	287,133,614	226,668,259	169,431,733	399,930,395	399,615,099	169,747,029	59.970
21. Auto physical damage	108,550,143	712,216,564	374,293,582	446,473,124	(32,612,479)	(39,259,407)	453,120,052	48.964
22. Aircraft (all perils)	32,434,133	13,671,011	29,929,011	16,176,133	42,060,289	33,149,610	25,086,812	67.002
23. Fidelity	2,547,581	71,788	1,555,791	1,063,577	4,934,770	3,820,335	2,178,012	83.275
24. Surety	38,689,556	30,327,427	39,884,875	29,132,108	43,692,901	31,415,325	41,409,684	45.262
26. Burglary and theft	262,678	(22,531)	173,891	66,257	1,274,958	1,789,542	(448,327)	(170.294)
27. Boiler and machinery	274	237,241	133,917	103,598	69,220	1,040,520	(867,701)	(60.372)
28. Credit			2,939	(2,939)	9,962	56,290	(49,268)	
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X	29,890,149	65,608,708	(35,718,559)	78,958,266	11,373,827	31,865,881	120.069
31. Reinsurance-Nonproportional Assumed Liability	X X X	57,477,545	25,738,293	31,739,252	183,164,298	124,165,309	90,738,242	157.713
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X	313,521	150,195	163,326	1,241,605	864,991	539,939	
33. Aggregate write-ins for other lines of business								
34. TOTALS	1,428,380,154	6,837,493,305	4,543,374,965	3,722,498,493	8,904,510,525	8,334,384,824	4,292,624,195	66.549

**DETAILS OF WRITE-INS**

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

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

Line of Business	Reported Losses				Incurred But Not Reported			8 Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	9 Unpaid Loss Adjustment Expenses
	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded		
1. Fire	10,551,166	43,974,800	27,172,397	27,353,569	(2,072,953)	26,840,713	4,337,820	47,783,509	4,657,604
2. Allied lines	826,951	48,336,809	23,907,253	25,256,508	1,278,942	2,481,754	1,808,199	27,209,005	2,328,619
3. Farmowners multiple peril									58,812
4. Homeowners multiple peril	2,055,643	204,579,396	80,468,624	126,166,415	(593,430)	170,143,342	90,091,255	205,625,072	55,496,188
5. Commercial multiple peril	36,571,355	201,113,165	104,807,680	132,876,839	32,506,711	51,748,226	47,321,548	169,810,228	55,291,736
6. Mortgage guaranty									
8. Ocean marine	21,068,749	28,796,853	20,068,220	29,797,381	7,728,351	16,146,570	11,101,385	42,570,917	6,425,471
9. Inland marine	39,435,178	20,422,606	42,404,512	17,453,271	12,584,365	28,583,580	30,112,927	28,508,290	5,816,552
10. Financial guaranty									
11.1 Medical malpractice - occurrence	1,600	1,027,930	344,893	684,638	101	(919,429)	(307,958)	73,268	6,864
11.2 Medical malpractice - claims - made									
12. Earthquake	22,255	543,894	202,315	363,833	4,430	761,676	274,600	855,340	416,539
13. Group accident and health		4,879,689	1,634,696	3,244,993	2,750,346	(627,156)	2,787,361	(a) 2,580,822	200,832
14. Credit accident and health (group and individual)									
15. Other accident and health	98,329	871,287	325,124	644,492	570,751	2,073,339	886,147	(a) 2,402,434	91,356
16. Workers' compensation	1,560,728,559	5,595,081,652	3,788,486,544	3,367,323,666	552,387,793	3,047,708,788	2,296,755,415	4,670,664,833	573,936,026
17.1 Other liability - occurrence	810,029,019	552,346,002	571,800,011	790,575,010	383,389,492	714,856,987	748,050,720	1,140,770,768	347,819,557
17.2 Other liability - claims - made	266,882,777	16,105,381	237,946,779	45,041,380	262,920,994	77,441,233	244,319,479	141,084,128	48,364,249
18.1 Products liability - occurrence	387,468,251	79,521,868	208,776,016	258,214,103	235,521,192	94,472,293	216,397,830	371,809,757	168,012,792
18.2 Products liability - claims - made	1,313,400	1,064,631	796,640	1,581,392	1,636,554	1,394,702	1,019,553	3,593,095	2,069,598
19.1, 19.2 Private passenger auto liability	177,210,042	1,305,603,674	577,195,435	905,618,282	146,374,141	513,675,058	239,222,606	1,326,444,875	304,722,428
19.3, 19.4 Commercial auto liability	166,359,587	313,920,638	257,034,869	223,245,356	241,058,243	330,057,152	394,430,356	399,930,395	58,937,808
21. Auto physical damage	793,080	1,869,571	2,899,794	(237,143)	348,750	(30,837,657)	1,886,428	(32,612,479)	35,808,428
22. Aircraft (all perils)	95,087,925	16,672,030	81,252,220	30,507,735	12,174,950	6,447,551	7,069,947	42,060,289	8,650,666
23. Fidelity	2,131,115	84,574	1,341,785	873,904	11,417,345	1,501,840	8,858,319	4,934,769	1,289,035
24. Surety	36,286,778	7,720,879	32,337,615	11,670,043	52,667,815	1,490,952	22,135,909	43,692,901	12,618,351
26. Burglary and theft	103,203	195,843	100,180	198,866	794,024	896,844	614,775	1,274,959	148,488
27. Boiler and machinery		1,683,574	564,198	1,119,376	(31,381)	(1,528,355)	(509,580)	69,220	299,933
28. Credit						14,980	5,018	9,961	525
29. International									
30. Reinsurance-Nonproportional Assumed Property	X X X	54,335,471	19,921,720	34,413,751	X X X	69,141,531	24,597,016	78,958,266	829,279
31. Reinsurance-Nonproportional Assumed Liability	X X X	189,094,900	63,346,792	125,748,109	X X X	86,340,135	28,923,945	183,164,298	4,125,252
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X	1,896,396	635,293	1,261,103	X X X	(29,321)	(9,823)	1,241,605	(8)
33. Aggregate write-ins for other lines of business									
34. TOTALS	3,615,024,963	8,691,743,512	6,145,771,603	6,160,996,872	1,955,417,525	5,210,277,326	4,422,181,198	8,904,510,525	1,698,422,977

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

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

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

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	189,149,324			189,149,324
1.2 Reinsurance assumed	626,588,424			626,588,424
1.3 Reinsurance ceded	356,758,595			356,758,595
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	458,979,153			458,979,153
2. Commission and brokerage:				
2.1 Direct excluding contingent		141,524,872		141,524,872
2.2 Reinsurance assumed excluding contingent		537,560,767		537,560,767
2.3 Reinsurance ceded excluding contingent		647,125,928		647,125,928
2.4 Contingent-direct		11,910,525		11,910,525
2.5 Contingent-reinsurance assumed		26,913,761		26,913,761
2.6 Contingent-reinsurance ceded		13,269,402		13,269,402
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)		57,514,595		57,514,595
3. Allowances to manager and agents	861	2,457		3,318
4. Advertising	5,814,517	51,360,935	150,278	57,325,730
5. Boards, bureaus and associations	1,568,537	17,326,454	3,664	18,898,655
6. Surveys and underwriting reports	15,143	20,118,365	155	20,133,663
7. Audit of assureds' records	266	732	7	1,005
8. Salary and related items:				
8.1 Salaries	355,996,323	705,206,970	42,997,144	1,104,200,437
8.2 Payroll taxes	20,298,679	54,877,841	2,140,408	77,316,928
9. Employee relations and welfare	48,803,400	140,271,503	2,433,139	191,508,042
10. Insurance	31,679,106	8,129,688	75,469	39,884,263
11. Directors' fees	2,747	183,215	72	186,034
12. Travel and travel items	21,938,373	52,601,584	849,981	75,389,938
13. Rent and rent items	25,681,692	67,408,684	715,127	93,805,503
14. Equipment	22,042,592	49,997,116	1,000,719	73,040,427
15. Cost or depreciation of EDP equipment and software	5,639,687	9,708,102	643,498	15,991,287
16. Printing and stationery	5,883,705	14,267,999	207,473	20,359,177
17. Postage, telephone and telegraph, exchange and express	17,795,981	47,838,777	2,386,337	68,021,095
18. Legal and auditing	2,569,536	12,853,267	3,454,921	18,877,724
19. Totals (Lines 3 to 18)	565,731,145	1,252,153,689	57,058,392	1,874,943,226
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 7,576,877		239,611,881		239,611,881
20.2 Insurance department licenses and fees		6,102,191		6,102,191
20.3 Gross guaranty association assessments		4,063,455		4,063,455
20.4 All other (excluding federal and foreign income and real estate)		11,743,567		11,743,567
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		261,521,094		261,521,094
21. Real estate expenses			23,036,366	23,036,366
22. Real estate taxes			4,148,721	4,148,721
23. Reimbursements by uninsured accident and health plans				
24. Aggregate write-ins for miscellaneous expenses	27,885,963	34,473,784	5,696,888	68,056,635
25. Total expenses incurred	1,052,596,261	1,605,663,162	89,940,367	(a) 2,748,199,790
26. Less unpaid expenses-current year	1,698,423,690	601,806,849	16,868,719	2,317,099,258
27. Add unpaid expenses-prior year	1,648,044,862	586,041,849	15,958,164	2,250,044,875
28. Amounts receivable relating to uninsured accident and health plans, prior year				
29. Amounts receivable relating to uninsured accident and health plans, current year				
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	1,002,217,433	1,589,898,162	89,029,812	2,681,145,407

  

DETAILS OF WRITE-INS				
2401. Change in unallocated expense reserves	(1,528,537)			(1,528,537)
2402. Other expenses	29,414,500	34,473,784	5,696,888	69,585,172
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	27,885,963	34,473,784	5,696,888	68,056,635

(a) Includes management fees of \$ 0 to affiliates and \$ 2,585,756 to non-affiliates.

**EXHIBIT OF NET INVESTMENT INCOME**

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 113,049,390	116,341,059
1.1 Bonds exempt from U.S. tax	(a) 15,245,507	17,305,163
1.2 Other bonds (unaffiliated)	(a) 493,405,319	503,199,419
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b) 11,328,549	11,329,802
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	50,150,284	51,924,909
2.21 Common stocks of affiliates	21,334,058	21,334,058
3. Mortgage loans	(c)	
4. Real estate	(d) 44,916,225	44,916,225
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 11,041,984	11,422,052
7. Derivative instruments	(f)	
8. Other invested assets	30,732,787	29,706,589
9. Aggregate write-ins for investment income	1,116,222	1,116,222
10. Total gross investment income	792,320,325	808,595,498
11. Investment expenses		(g) 89,940,368
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h) 86,584,077
14. Depreciation on real estate and other invested assets		(i) 9,283,683
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		185,808,128
17. Net investment income (Line 10 minus Line 16)		622,787,370

DETAILS OF WRITE-INS		
0901. AP/CIT writeoff	1,116,222	1,116,222
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)	1,116,222	1,116,222
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 \$ 8,701,201 accrual of discount less \$ 27,854,452 amortization of premium and less \$ 50,784,500 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 \$ 43,050,431 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 1,971,968 accrual of discount less \$ 310,628 amortization of premium and less \$ (189,286) 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 \$ 83,833,514 interest on surplus notes and \$ 0 interest on capital notes.
- (i) Includes \$ 9,283,683 depreciation on real estate and \$ 0 depreciation on other invested assets.

**EXHIBIT OF CAPITAL GAINS (LOSSES)**

	1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Increases (Decreases) by Adjustment	4 Total
1. U.S. Government bonds	17,689,812			17,689,812
1.1 Bonds exempt from U.S. tax	4,573,413			4,573,413
1.2 Other bonds (unaffiliated)	116,311,137	(2,720,035)	1,288,148	114,879,250
1.3 Bonds of affiliates				
2.1 Preferred stocks (unaffiliated)	10,275,716	(19,354,262)	7,056,968	(2,021,578)
2.11 Preferred stocks of affiliates				
2.2 Common stocks (unaffiliated)	28,618,346	(5,782,910)	78,529,250	101,364,686
2.21 Common stocks of affiliates	6,898,626		484,953,806	491,852,432
3. Mortgage loans				
4. Real estate				
5. Contract loans				
6. Cash, cash equivalents and short-term investments	103,797			103,797
7. Derivative instruments				
8. Other invested assets	67,968,858	(24,651,535)	(198,679,895)	(155,362,572)
9. Aggregate write-ins for capital gains (losses)	(201,071)			(201,071)
10. Total capital gains (losses)	252,238,634	(52,508,742)	373,148,277	572,878,169

DETAILS OF WRITE-INS			
0901. AP/CIT writeoff	(201,071)		(201,071)
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)	(201,071)		(201,071)

**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. Receivable for securities			
9. Aggregate write-ins for invested assets			
10. Subtotals, cash and invested assets (Lines 1 to 9)			
11. Investment income due and accrued			
12. Premiums and considerations:			
12.1 Uncollected premiums and agents' balances in the course of collection	18,816,975	8,379,231	(10,437,744)
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due			
12.3 Accrued retrospective premiums	57,036,114	53,064,048	(3,972,066)
13. Reinsurance:			
13.1 Amounts recoverable from reinsurers			
13.2 Funds held by or deposited with reinsured companies			
13.3 Other amounts receivable under reinsurance contracts			
14. Amounts receivable relating to uninsured plans	2,521,073	2,750,281	229,208
15.1 Current federal and foreign income tax recoverable and interest thereon			
15.2 Net deferred tax asset	400,482,461	503,979,950	103,497,489
16. Guaranty funds receivable or on deposit			
17. Electronic data processing equipment and software	86,812,225	64,340,423	(22,471,802)
18. Furniture and equipment, including health care delivery assets	16,206,912	23,477,300	7,270,388
19. Net adjustment in assets and liabilities due to foreign exchange rates			
20. Receivable from parent, subsidiaries and affiliates			
21. Health care and other amounts receivable			
22. Other assets nonadmitted	36,247,922	24,354,631	(11,893,291)
23. Aggregate write-ins for other than invested assets	74,153,434	80,477,003	6,323,569
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	692,277,116	760,822,867	68,545,751
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	692,277,116	760,822,867	68,545,751

<b>DETAILS OF WRITE-INS</b>			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 09 from overflow page			
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)			
2301. Other assets	69,974,656	75,669,644	5,694,988
2302. Amounts Billed & receivable Under Deductible	4,178,778	4,807,359	628,581
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page			
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	74,153,434	80,477,003	6,323,569

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## NOTES TO FINANCIAL STATEMENTS

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### Note 1- Summary of Significant Accounting Policies

#### A. Accounting Practices

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

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

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

#### C. Accounting Policies

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

In addition, the Company uses the following accounting policies:

1. Investment grade short-term investments are carried at cost adjusted where appropriate for amortization of premium or discount, or market as specified by the Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO Manual).
2. Investment grade bonds are carried at cost adjusted where appropriate for amortization of premium or discount, or market as specified by the SVO Manual.
3. Common stocks are carried at market value except that investments in stocks of subsidiaries and affiliates are carried on the equity basis.
4. Preferred stocks are carried at cost or market in accordance with the SVO Manual.
5. The Company does not own mortgage loans.
6. Mortgage-backed/asset backed securities are stated at amortized value. Prepayment assumptions for single class mortgage-backed/asset backed securities and multi-class securities were obtained from internal estimates. These assumptions are consistent with the current interest rate and economic environment. The retrospective adjustment method is used to value all single class mortgage-backed/asset-backed securities and multi-class securities. Non-investment grade mortgage-backed/asset backed securities are stated at the lower of amortized value or fair value.
7. The Company carries its investments in subsidiaries, controlled, and affiliated (SCA) companies in accordance with SSAP No. 46, *Investment in Subsidiaries, Controlled Entities and Affiliates*, and the SVO Manual. Schedule D Part 6-Section 1 illustrates the valuation method used for each SCA company.
8. Investments in joint ventures, partnerships, and limited liability companies are carried in accordance with SSAP No. 48, *Joint Ventures, Partnerships and Limited Liability Companies*, and the SVO Manual.
9. 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 2004.

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

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

#### B. The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the state of Massachusetts. Effective January 1, 2001, the Massachusetts Division of Insurance required that insurance companies domiciled in Massachusetts prepare their statutory-basis financial statements in accordance with the NAIC APP Manual, effective January 1, 2001, subject to any deviations prescribed or permitted by the Massachusetts Insurance Commissioner.

## NOTES TO FINANCIAL STATEMENTS

### Note 3- Business Combinations and Goodwill

#### A. Statutory Purchase Method:

<u>Acquired Company</u>	<u>Date of Acquisition</u>	<u>% Ownership</u>	<u>Cost</u>	<u>Unamortized Goodwill December 31, 2004</u>	<u>Goodwill Amortization Current Year</u>
Liberty Personal Insurance Company	July 1, 1998	100.00%	\$49,434,445	\$6,626,194	\$1,893,197
Liberty Insurance Holdings Inc.	May 10, 1999	100.00%	\$1,472,492,028	\$29,606,104	\$6,832,178
Colorado Casualty Insurance Company	September 29, 1998	100.00%	\$46,319,965	\$14,812,500	\$3,950,000
Summit Holding Southeast Inc.	September 30, 1998	100.00%	\$229,350,130	\$68,515,299	\$18,247,853

#### B. Statutory Mergers

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

#### C. Impairment Loss

The Company did not recognize an impairment loss during the period.

### Note 4- Discontinued Operations

On April 1, 2004, the Company completed the sale of its Canadian personal lines business, consisting of private passenger automobile, homeowners and personal property insurance, to Meloche Monnex, Inc., a member of TD Bank Financial Group ("Meloche Monnex").

Operating results of discontinued operations, composed primarily of the Canadian branch personal lines property and casualty operations for the year ended December 31, 2004 was as follows:

Earned Premium	54,925,985
Loss and LAE Incurred	(42,696,669)
Other	(82,229)
Net Income	<u>12,147,087</u>

### Note 5- Investments

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

The Company does not hold any mortgage loans as investments.

#### B. Troubled Debt Restructuring for Creditors

Not applicable

#### C. Reverse Mortgages

The Company has no reverse mortgages.

#### D. Loan-Backed Securities

- The Company has elected to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities purchased prior to that date, where historical cash flows are not readily available
- Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities were based upon 1-month historical constant prepayment rates.
- The Company used IDSI, Bloomberg, and Lehman Index data in determining the market value of the vast majority of its loan-backed securities. A small number of securities are priced in other ways, such as contacting brokers.
- 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 did not incur any impairments on real estate during the year.
- The Company does not engage in retail land sale operations



## NOTES TO FINANCIAL STATEMENTS

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

- A. The Company has no investments in joint ventures, partnerships, or limited liability companies that exceed 10% of its admitted assets.
- B. The Company invests in various limited partnerships that are reported in accordance with SSAP No. 48. The partnerships are valued using traditional private equity valuation metrics. Interim poor performance within the partnerships may lead to impairment losses being recognized by management. The Company realized impairment losses \$24,651,535 during the year.

### 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, 2004.

### Note 8- Derivative Instruments

The Company's investment strategy does not include derivative instruments. However, the Company does acquire fixed maturities which have derivative features embedded which are ancillary to the overall investment and 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, 2004	December 31, 2003	Change
Total of gross deferred tax assets	1,236,152,541	1,264,191,068	(28,038,527)
Total of deferred tax liabilities	(303,531,541)	(327,335,647)	23,804,106
Net deferred tax asset	932,621,000	936,855,421	(4,234,421)
Net deferred tax asset non-admitted	(400,482,461)	(503,979,950)	103,497,489
Net admitted deferred tax asset	<b>532,138,539</b>	<b>432,875,471</b>	<b>99,263,068</b>

- B. The Company has not provided for deferred taxes on unremitted earnings of subsidiaries outside the United States where such earnings are permanently invested. At December 31, 2004, unremitted earnings of foreign subsidiaries were \$463 million. If these earnings were distributed in the form of dividends or otherwise, the Company would be subject to U.S. income taxes less an adjustment for applicable foreign tax credits.

The American Jobs Creation Act of 2004 ("The Act") introduced a special one-time 85% dividends received deduction on the repatriation of certain foreign earnings to a United States taxpayer, provided certain criteria are met. The maximum amount of foreign earnings eligible for the deduction is limited to the greater of \$500 million or the amount shown in the Company's most recent audited financial statements filed prior to June 30, 2003 as earnings permanently reinvested outside of the United States. The Company is currently evaluating the opportunity presented by this provision and expects to complete such analysis in the first half of 2005. A reasonable estimate of the range of income tax effects of a repatriation of foreign earnings under The Act cannot be made at this time.

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

	2004	2003
Federal	113,929,038	189,022,661
Net operating (loss) / benefit	(180,994,100)	(229,864,118)
Foreign	28,753,640	30,684,000
Federal and foreign income tax incurred	(38,311,422)	(10,157,457)

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

- D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest, excludible dividend income, foreign operations, revisions to prior year estimates, and changes in deferred taxes related to non-admitted assets.
- E. The amount of Federal income taxes incurred and available for recoupment in the event of future losses is \$80,940,000 from the current year and \$17,211,000 from the preceding year.

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

The Company has an alternative minimum tax credit of \$182,979,000 which does not expire.

The Company has a foreign tax credit of \$48,740,000 which was generated in 2003 and expires in 2013.

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**NOTES TO FINANCIAL STATEMENTS**


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

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

\* This company joined the consolidated group in 2004 and its activity from the date it joined the group is included in the consolidated return.

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

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

- A. All of the outstanding shares of capital stock of the Company are held by Liberty Mutual Group Inc. ("LMGI"). LMGI is owned 100% by LMHC Massachusetts Holdings Inc. ("LMHC MHI") and LMHC MHI is owned 100% by Liberty Mutual Holding Company, Inc. ("LMHCI").
- B. Transactions between the Company and its affiliates are described in Schedule Y Part 2
- During 2004, the Company received capital contributions from its parent, LMGI, amounting to \$573,837,026.
- C. There were no material changes in the terms of any intercompany arrangements.
- D. At December 31, 2004, the Company reported \$42,362,549 due to affiliates. In general, the terms of the intercompany arrangements require settlement at least quarterly.

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## NOTES TO FINANCIAL STATEMENTS

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- E. The Company guarantees, jointly and severally with Liberty Mutual Fire Insurance Company, \$88,000,000 of the medium term notes payable which are obligations of its parent company, LMGI.

The Company guarantees the performance of LMGI under a \$600,000,000 commercial paper program. The amount outstanding as of December 31, 2004 was \$147,100,000.

The Company guarantees the performance of the obligations of LMGI under a \$450,000,000 revolving credit agreement, with several lenders led by Bank of America (formerly Fleet National Bank). The revolving line of credit serves as a back-up facility for the commercial paper program. The amount outstanding at December 31, 2004 was \$0.

The Company guarantees the performance of Inversora Segucar, C.A. under a \$25,000,000 liquidity program. The amount outstanding as of December 31, 2004 was \$22,086,466.

The Company collateralizes the performance of Liberty Corporate Capital Limited's obligations under standby letters of credit with an amount of \$771,076,200. As of December 31, 2004, there have been no drawings under the standby letters of credit.

The Company guarantees obligations of Liberty Life Assurance Company of Boston and Liberty Mutual Insurance Europe Ltd. on policies issued.

- F. There are service agreements (the "Agreements") between the Company and the following subsidiaries or affiliated (SCA) companies:

**Company Name**

Cascade Disability Management, Inc.  
Employers Insurance Company of Wausau

The First Liberty Insurance Corporation  
Golden Eagle Insurance Corporation  
Helmsman Insurance Agency LLC  
Helmsman Management Services LLC  
Liberty Energy Holdings LLC  
Liberty Insurance Company of America  
Liberty Insurance Corporation  
Liberty Insurance Underwriters Inc.  
Liberty Life Assurance Company of Boston  
Liberty Lloyds of Texas Insurance Company  
Liberty Mutual Equity LLC

Liberty Mutual Group Inc.  
Liberty Mutual Managed Care, Inc.  
Liberty Personal Insurance Company  
Liberty Surplus Insurance Corporation  
LIU Specialty Agency, Inc.  
LM General Insurance Company  
LM Insurance Corporation  
LM Personal Insurance Company  
LM Property and Casualty Insurance Company  
San Diego Insurance Company

Under the agreements, the Company may provide the SCA companies with office space, supplies, equipment, telephone and wire services, the use of computers and similar machines and services of personnel employed by the Company. Services include but are not limited to the following: claims handling, credit and collections, sales policy production, underwriting, investment management, and a variety of computer activities. The Company is reimbursed for the costs of all services which it provides under these agreements.

Pursuant to an Employee Benefit Plans Cost-Sharing Agreement, the Company has agreed to reimburse LMGI for certain costs related to one or more employee benefit or welfare plans covering current or past employees of LMIC or its affiliates which have been transferred to LMGI or which may be transferred to LMGI in the future. The amount of the reimbursement is: (a) the required contributions to the pension plans and (b) with respect to other plans, the benefits incurred on the Company's behalf.

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

During the period, the Company made the following changes to its organization structure:

1. Effective April 1, 2004, the Company sold Liberty Insurance Company of Canada.
2. Liberty Spain Insurance Group LLC, a Delaware company, was formed on November 24, 2004. Liberty Spain Insurance Group LLC now owns 99.9% of Liberty Spain Insurance Group Compania de Seguros y Reaseguros S.A.(Spain), which was previously owned directly by the Company.
3. Liberty Massachusetts Trust, a Massachusetts company, was dissolved on December 27, 2004. Liberty International Holdings LLC, a Delaware company, 100% owned by the Company, was formed to replace Liberty Massachusetts Trust.
4. The Company received a dividend from Liberty Mutual Capital Corporation (Boston) (LMCC), after, LMCC was sold to Liberty Mutual Group, Inc. (LMGI), at statutory book value. Subsequent to the sale, LMCC merged with and into LMGI. The Company continues to guarantee the medium term notes, commercial paper and revolving credit facility,

## NOTES TO FINANCIAL STATEMENTS

which are now obligations of LMGI.

- 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 greater than 10% of admitted assets.
- J. The Company did not recognize any impairment write down for its subsidiary, controlled, or affiliated companies during the statement period.

### **Note 11- Debt**

Debt consists of the following obligations as of December 31, 2004:

The Company maintains \$600,000,000 revolving line of credit with LMGI. Outstanding borrowings as of December 31, 2004 totaled \$3,108,882. Interest is paid quarterly in arrears based on average borrowings at a variable interest rate. \$1,691,714 of interest was paid in 2004.

The Company has a demand note payable to its wholly owned subsidiary, Liberty Re (Bermuda) Limited, in the amount of \$24,541,400. Interest is payable semi-annually on the first day of April and October, computed at LIBOR plus .15%. \$1,049,804 of interest was paid in 2004.

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

- A. As discussed in Note 10, the Company is part of a mutual holding company structure. During 2003, plan sponsorship of the U.S. Liberty Mutual Retirement Plan and Supplemental Income Retirement Plan ("SIRP") defined benefit plans were transferred to LMGI. Accordingly, the plan assets and obligations are not included in the Company's summary of assets and obligations as of December 31, 2004. Also, the Employee's Thrift-Incentive Plan and Supplemental Income at Retirement Plan ("SIRP") defined contribution plans were transferred to LMGI effective September 24, 2003.

The Company continues to sponsor non-contributory defined benefit and defined contribution pension plans covering substantially all Canadian and certain U.S. employees such as sales agents that are not included in other plans of the Company. The benefits and eligibility are based on age, years of service and the employee's compensation, as more fully defined in the Plan. As of December 31, 2004, the company accrued pension cost in accordance with the actuarially determined amounts, with an offset for the incremental asset amortization.

The Company's U.S. postretirement health and life benefit obligations and assets were also transferred to LMGI in September, 2003. Accordingly, the plan assets and obligations are not included in the Company's summary of assets and obligations as of December 31, 2004. However, the Company continues to provide certain healthcare and life insurance benefits for retired Canadian employees. Substantially all employees may become eligible for these benefits if they reach retirement age and have ten years of service working for the Company, and as more fully defined in the Plan.

A summary of assets, obligations, and assumptions of the Pension Plans and Postretirement Benefit Plans are as follows at December 31, 2004 and 2003:

	Pension Plans		Postretirement	
	2004	2003	2004	2003
<b>(A) Change in benefit obligations</b>				
a. Benefit obligations, beginning of year	\$86,455,596	\$2,136,384,572	\$2,082,934	\$313,389,074
b. Service costs	2,879,843	57,047,520	-	-
c. Interest costs	6,014,342	107,397,779	130,603	15,610,958
d. Eligibility costs	-	19,490,723	97,418	9,732,769
e. Amendments	201,544	-	-	-
f. Actuarial (gains)/losses	19,020,630	340,542,853	98,979	19,788,591
g. Currency exchange rate change	2,794,157	8,152,676	160,343	816,241
h. Transfer to LMGI	-	(2,510,183,106)	-	(337,621,476)
i. Acquisition/ (Divestiture)	(5,394,399)	-	(551,652)	-
j. Benefits paid	(5,141,299)	(72,377,421)	(120,417)	(19,633,223)
k. Benefit obligations, end of year	<u>\$106,830,414</u>	<u>\$86,455,596</u>	<u>\$1,898,208</u>	<u>\$2,082,934</u>
<b>(B) Change in plan assets</b>				
a. Fair value of plan assets at beginning of the year	\$27,603,570	\$1,831,379,917	\$ -	\$20,496,752
b. Actual return on plan assets	4,344,183	203,484,228	-	1,487,136
c. Currency exchange rate changes	1,802,990	8,517,259	-	-
d. Employer contributions	1,574,598	-	120,417	18,287,330
e. Transfer to LMGI	-	(1,944,019,817)	-	(20,612,167)
f. Benefits paid	(2,985,308)	(71,758,017)	(120,417)	(19,659,051)
h. Fair value of plan assets at end of the year	<u>\$32,340,033</u>	<u>\$27,603,570</u>	<u>\$ -</u>	<u>\$ -</u>
<b>(C) Reconciliation of prepaid (accrued)</b>				
a. Funded status of the plan	\$(74,490,451)	\$(58,852,026)	\$(1,898,208)	\$(2,082,934)
b. Unrecognized net (gain)/loss	34,505,361	29,062,884	(310,419)	(462,754)
c. Unrecognized prior service costs	758,597	519,208	-	-
d. Unrecognized net transition (asset)/obligation	2,780,897	3,683,315	1,113,299	1,466,442
e. Net amount recognized	<u>\$(36,445,596)</u>	<u>\$(25,586,619)</u>	<u>(1,095,328)</u>	<u>\$(1,079,246)</u>
<b>(D) -Non-vested benefits</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$563,347</u>	<u>\$3,277,024</u>

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**NOTES TO FINANCIAL STATEMENTS**


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**E. Amounts recognized in the statutory financial statements consist of**

Prepaid Benefit Cost	\$1,995,246	\$ -	\$ -	\$ -
Accrued benefit liability	(54,236,021)	(33,226,515)	(1,095,328)	(1,079,246)
Minimum pension liability	5,991,407	-	-	-
Intangible asset	9,803,772	7,639,896	-	-
Net amount recognized	<u>\$(36,445,596)</u>	<u>\$(25,586,619)</u>	<u>\$(1,095,328)</u>	<u>\$(1,079,246)</u>

**F. Weighted-average assumptions**

Discount rate	6.50%	7.00%	6.50%	7.00%
Expected return on plan assets	8.50%	8.50%	-	7.15%
Rate of compensation increase	5.10%	5.10%	-	-

The discount rate used in determining the year-end pension and postretirement benefit obligation was 6.25% in 2004 and 6.50% in 2003.

The weighed average health care cost trend rate assumed for 2005 is 11.7% graded to 5.4% in 2012. Assumed healthcare cost rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed healthcare cost trends rate would have the following effects:

	<u>1-Percentage Point Increase</u>	<u>1-Percentage Point Decrease</u>
Effect on postretirement benefit obligation	\$164,403	(\$140,941)
Effect on total of service cost and interest cost	\$15,360	(\$12,650)

- B. The Employees' Thrift-Incentive Plan and Supplemental Income at Retirement Plan ("SIRP") defined contribution plans were transferred to LMGI effective September 24, 2003. The Company continues to sponsor various defined contribution savings plans for Canadian and certain U.S. employees. The Company's expense charged to operations amounted to approximately \$1,300,000 and \$45,971,000 in 2004 and 2003, respectively. The Company's contribution to the defined contribution plans is based on the employee contribution amount and profitability.
- C. Multi-employer Plans
- Not applicable
- D. The Company's U.S. employees participate in non contributory defined benefit pension plans sponsored by LMGI, a holding company. The Company provides certain other postretirement benefits to inactive through plans sponsored by LMGI. The Company has no legal obligation for benefits under these plans subsequent to September 24, 2003. LMGI allocates defined benefit pension amounts to the Company based on paid amounts. LMGI allocates postretirement amounts to the Company based on Statutory incurred amounts. LMGI allocates defined contribution pension and postretirement amounts to the Company based on Statutory incurred amounts.
- LMGI allocated \$158,079,146 and \$2,968,804 of defined benefit pension expense to the Company in 2004 and 2003, respectively. LMGI allocated \$45,044,823 and \$10,371,510 of postretirement expense to the Company in 2004 and 2003, respectively.
- E. The Company has no obligations to current or former employees for benefits after their employment but before their retirement other than for compensation related to earned vacation. The liability for earned but untaken vacation has been accrued.

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

- The Company has 100,000 shares authorized, issued, and outstanding as of December 31, 2004. All shares have a stated par value of \$100.
- Preferred Stock

Not applicable

- Dividend Restrictions

There are no dividend restrictions, except as noted in 4 below.

- The maximum amount of dividends which can be paid by Massachusetts-domiciled insurance companies to shareholders without prior approval of the Insurance Commissioner is the greater of (a) 10% of surplus, or (b) net income. Additionally, as a result of a Keepwell agreement with certain of its affiliates, the Company may be effectively limited from paying any dividend to shareholders when the Company's surplus is below 300% of Authorized Control Level risk based capital. Subject to the preceding sentence, the maximum dividend payout which may be made without prior approval in 2005 is \$725,534,992.
- As of December 31, 2004, the Company has restricted surplus of \$757,681,199 resulting from retroactive reinsurance contracts.
- The Company had no advances to surplus.
- The Company did not hold stock for special purposes.

## NOTES TO FINANCIAL STATEMENTS

8. The Company had changes in special surplus funds since December 31, 2001 resulting from retroactive reinsurance contracts.
9. The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:

	Cumulative Increase (Decrease) in Surplus	Current Year Increase (Decrease) in Surplus
a. Unrealized gains/(losses)	\$253,011,362	\$373,180,256
b. Nonadmitted asset values	(692,277,116)	68,545,751
c. Provision for reinsurance	(131,753,865)	11,244,916
<b>Total</b>	<b>(\$571,019,619)</b>	<b>\$452,970,923</b>

10. Surplus Notes

(1) Date Issued	(2) Interest Rate	(3) Amount of Note(s)	(4) Carrying Value	(5) Interest Paid Current Year	(6) Total Interest Paid	(7) Unapproved Interest	(8) Date of Maturity
May 18, 1995	8.500%	\$150,000,000	\$149,790,141	\$12,750,000	\$121,125,000	\$0	5/15/2025
May 04, 1995	8.200%	121,361,000	121,211,930	14,581,177	188,831,177	0	5/04/2007
Oct. 21, 1996	7.875%	250,000,000	249,695,529	19,687,500	157,500,000	0	10/15/2026
Oct. 15, 1997	7.697%	500,000,000	492,153,326	38,485,000	269,395,000	0	10/15/2097
Total		\$1,021,361,000	\$1,012,850,926	\$85,503,677	\$736,851,177	\$0	

The surplus debenture, in the amount of \$150,000,000 listed under 13.J.1 was issued pursuant to Rule 144A under the Securities Act of 1993, underwritten by Merrill Lynch & Co., Goldman Sachs & Co. and Salomon Brothers Inc. and is administered by JPMorgan Chase Bank as registrar/paying agent. The surplus debenture has the following repayment conditions and restrictions: All interest and maturity payments must be approved by the Massachusetts Division of Insurance.

The surplus debenture in the amount of \$121,361,000, listed under 13.J.2 was issued pursuant to Rule 144A under the Securities Act of 1993, underwritten by Merrill Lynch & Co., Goldman Sachs & Co. and Salomon Brothers Inc. and is administered by JPMorgan Chase Bank as registrar/paying agent. The surplus debenture has the following repayment conditions and restrictions: All interest and maturity payments must be approved by the Massachusetts Division of Insurance. In April, 2004, the company redeemed the surplus debenture in the amount of \$128,639,000 with a carrying value of \$128,551,553. At December 31, 2004, the outstanding balance on the debenture is \$121,361,000.

The surplus debenture in the amount of \$250,000,000, listed under 13.J.3 was issued pursuant to Rule 144A under the Securities Act of 1993, underwritten by CS First Boston, Morgan Stanley & Co. and Salomon Brothers Inc. and is administered by JPMorgan Chase Bank as registrar/paying agent. The surplus debenture has the following repayment conditions and restrictions: All interest and maturity payments must be approved by the Massachusetts Division of Insurance.

The surplus debenture in the amount of \$500,000,000, listed under 13.J.4 was issued pursuant to Rule 144A under the Securities Act of 1993, underwritten by CS First Boston, Goldman Sachs & Co. and Merrill Lynch & Co. and is administered by JPMorgan Chase Bank as registrar/paying agent. The surplus debenture has the following repayment conditions and restrictions: All interest and maturity payments must be approved by the Massachusetts Division of Insurance.

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, contingent commitments or guarantees on behalf of affiliates or other entities except as indicated in Note 10E.

B. Assessments

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

The Company has accrued a liability for guaranty fund and other assessments of \$165,200,905 that is offset by future premium tax credits of \$37,427,157. 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 2005.

During 2004 there were no material insolvencies to report. The Company continues to remit payments relating to prior year insolvencies.

## NOTES TO FINANCIAL STATEMENTS

On October 3, 2001, the Company received notification of the insolvency of the Reliance Insurance Group. It is expected the insolvency will result in a guaranty fund assessment against the company of \$27,047,704 that has been charged to operations in the prior year, and any remaining unpaid balance is included in the liability above.

C. Gain Contingencies

Not applicable

D. All other Contingencies

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

**Note 15- Leases**

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

The Company has entered into sale-leaseback arrangements with unrelated parties on certain property, furniture and fixtures. The transactions have been accounted for in accordance with SSAP No. 22. The Company has a purchase option for all PP&E at the end of each respective lease. The following is a schedule of the Company's minimum lease obligations:

<u>Year(s)</u>	<u>Sale Lease-back</u>	<u>All Other Operating Lease Arrangements</u>
2005	\$29,220,475	\$71,202,491
2006	28,482,770	57,823,777
2007	16,034,969	41,492,918
2008	14,683,807	27,345,445
2009	11,578,211	18,211,997
2010 & thereafter	72,155,387	112,985,473
Total	\$172,155,619	\$329,062,101

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 and 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 have any transfers of receivables reported as sales.

B. Transfers and servicing of financial assets:

The Company participates in Securities lending program to generate additional income, whereby certain fixed income securities are loaned for a short period of time from the Company's portfolio to qualifying third parties, via a lending agent. Borrowers of these securities provide collateral equal to or in excess of, 102% of the market value of the loaned securities. Acceptable collateral may be in the form of cash or U.S. Government securities. The market value of the loaned securities is monitored and additional collateral is obtained if the market value of the collateral falls below 100% of the market value of the loaned securities. Under the terms of the securities lending program, the lending agent indemnifies the Company against borrower defaults. The loaned securities remain a recorded asset of the Company, however, the Company records a liability for the amount of collateral held, representing its obligation to return the collateral related to the loaned securities. At December 31, 2004, the total market value of fixed maturities loaned was \$56,150,576, with corresponding collateral value at \$57,262,450.

C. Wash Sales

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

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

A. Administrative Services Only (ASO) Plans

Net reimbursement for administrative expenses over actual expenses on uninsured plans and net gain was \$ 369,345. Claim payment volume was \$18,331,052.

B. Administrative Services Contract (ASC) Plans

Not applicable

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts

Not applicable

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**NOTES TO FINANCIAL STATEMENTS**


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

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

**Note 20 – September 11 Events**

The Company has material exposure to losses arising from the World Trade Center disaster of September 11, 2001. The exposure arises from the property, workers' compensation, auto, and surety policies and reinsurance contracts written by member companies of the Liberty Mutual Group. The Company shares in the losses via the inter-company pooling agreement. Although uncertainty about the final loss amount still exists, the losses are reasonably estimable and such estimate has been recorded. The Company believes that its reinsurers are financially sound and that reinsurance collectibility is not a significant issue or concern. The amounts recorded by the Company to date are as follows:

	Direct	Assumed	Gross	Ceded	Net
Paid Loss and ALAE	\$170,359,000	\$69,444,000	\$239,803,000	\$214,342,000	\$25,461,000
Loss and ALAE Reserves	\$74,427,000	\$17,044,000	\$91,471,000	\$47,019,000	\$44,452,000
Incurred Loss and ALAE	\$244,786,000	\$86,487,000	\$331,273,000	\$261,361,000	\$69,913,000

**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) Florida Special Disability Trust Fund

- a) The amount of credit taken by the Company in determination of its loss reserves was \$0 in 2004 and \$0 in 2003.
- b) The Company received payments from the Special Disability Trust Fund of \$2,880,627 in 2004 and \$3,404,852 in 2003.
- c) The amount the Company was assessed by the Special Disability Trust Fund was \$1,236,693 in 2004 and \$1,480,304 in 2003.

2) Assets in the amount of \$2,932,337,702\* and \$3,202,382,387\* as of December 31, 2004 and 2003, respectively, were on deposit with government authorities or trustees as required by law. Assets valued at \$888,013,824 and \$515,321,153 at December 31, 2004 and 2003, respectively, were maintained as compensating balances or pledged as collateral for bank loans and other financing arrangements.

\*Liberty Mutual Insurance Company Footnote 21 for 2003 is not inclusive of California statutory deposits pledged on behalf of San Diego Insurance Company. Liberty Mutual Insurance Company Footnote 21 for 2004 is inclusive of the California statutory deposits pledged on behalf of San Diego Insurance Company.

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

There were no reported losses that exceeded the policy deductible.

**Note 22- Events Subsequent**

There were no events subsequent to December 31, 2004 which would require disclosure.



## NOTES TO FINANCIAL STATEMENTS

### Note 23- Reinsurance

- A. Excluding amounts arising pursuant to the intercompany pooling agreement, as described in Note 26, the unsecured reinsurance recoverables with an individual reinsurer which exceed 3% of policyholders surplus are listed below.

Reinsurer	Naic No.	Federal ID No.	Recoverable Amount
National Workers' Compensation Reins Pool		AA-9992118	\$1,469,079,000
Swiss Re Group, Group No. 181			
Swiss Reinsurance Company		AA-1460146	
European International Reinsurance Company		AA-3160001	
Facility Insurance Corporation	10818	74-1194354	
Swiss Reinsurance Life and Health America	82627	06-0839705	
Swiss Reinsurance Life and Health Canada		AA-1560016	
Swiss Reinsurance America Corporation	25364	13-1675535	
North American Elite Insurance Company	29700	13-3440360	
North American Specialty Insurance	29874	02-0311919	
Swiss Reinsurance Co Canada		AA-1560160	
Total Swiss Re Group, Group No. 181			923,235,000
National Indemnity Company	20087	47-0355979	382,168,000
American Re - Insurance Company	10227	13-4924125	281,237,000

- B. There are no reinsurance recoverables in dispute from an individual reinsurer which exceeds 5% of the Company's surplus. In addition, the aggregate reinsurance recoverables in dispute do not exceed 10% of the Company's surplus.
- C. The following table sets forth the maximum return premium and commission equity due the reinsurers or the Company if all of the Company's assumed and ceded reinsurance were canceled as of December 31, 2004.

	Assumed Reinsurance		Ceded Reinsurance		Net Reinsurance	
	UEP	Commission Equity	UEP	Commission Equity	UEP	Commission Equity
Affiliates	\$4,017,900,193	\$268,764,550	\$1,454,313,337	\$97,281,627	\$2,563,586,856	\$171,482,923
All Other	111,468,341	30,096,452	885,383,553	203,638,217	(773,915,212)	(173,541,765)
Total	\$4,129,368,534	\$298,861,002	\$2,339,696,890	\$300,919,844	\$1,789,671,644	\$(2,058,842)

Direct Unearned Premium Reserve: \$892,884,499

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, 2004 are as follows:

Description	Direct	Assumed	Ceded	Net
Contingent commissions	\$12,590,005	\$21,525,816	\$11,428,800	\$22,687,021
Sliding scale adjustments	0	0	0	0
Other profit commissions	0	0	129,675,000	(129,675,000)
Totals	\$12,590,005	\$21,525,816	\$141,103,800	\$(106,987,979)

The Company does not use protected cells as an alternative to traditional reinsurance.

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**NOTES TO FINANCIAL STATEMENTS**


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- D. During the current year, the Company wrote off reinsurance balances of \$3,434,667. This amount is shown below by Income Statement classification and by reinsurer.

Income Statement Classification	Amount
Losses Incurred	\$1,971,507
Loss Adjustment Expenses Incurred	902,210
Premiums Earned	(73,892)
Other Expenses	487,058
Total	\$3,434,667
Reinsurer	Amount
American Re-Insurance Co., 10227	\$809,029
Hartford Fire Insurance Company, 19682	608,968
Ashmont Insurance Co. Ltd, AA-3190522	560,950
Lloyds, AA-1123000	492,996
Interstate Indemnity, 10627	351,842
Allstate Insurance Company, 19232	318,652
St Paul Fire & Marine, 24767	146,818
Excess Insurance Company Ltd., AA-1120580	53,652
Dominion Insurance Company Ltd., AA-1120495	22,566
Winterthur Swiss Insurance Company, AA-1460185	22,553
Harper Insurance Ltd., AA-1120431	16,945
Stronghold Insurance Company Ltd., AA-1121390	8,473
English and American Insurance, AA-1120545	4,236
Assicurazioni Generali S.P.A., AA-1360015	4,236
Factory Mutual Insurance Company, 21482	4,155
World Auxiliary Insurance Corporation, AA-1120386	4,070
River Thames Insurance Company Ltd., AA-1121270	2,243
Drake Insurance Company Ltd., AA-1120510	1,129
Sphere Insurance Company Ltd., AA-1121365	1,129
Axa Belgium, AA-1240170	25
Total	\$3,434,667

- E. The Company commuted several ceded reinsurance treaties in the current year with the reinsurers listed below. The net effect of all commutations was an increase in loss and loss adjustment expense of \$30,904,837 and a decrease in earned premium of \$999,291. These amounts are shown below by Income Statement classification and by reinsurer. Stuart Insurance Group and St. James Insurance Company (Bermuda) are affiliates of Liberty Mutual Insurance Company.

Income Statement Classification	Amount
Losses Incurred	\$30,904,837
Loss Adjustment Expenses Incurred	0
Premiums Earned	(999,291)
Other	0
Total	\$31,904,128
Reinsurer	Amount
Mountain Ridge Insurance Company, 10950	\$(112,472)
Reinsurance Company of Australia, AA-1930880	38,534
Stuart Insurance Group, AA-3190330	49,059
LaSalle Re Holding Ltd., AA-3190654	90,018
Constellation Reinsurance, 22144	891,561
Trenwick America Reinsurance Corp., 34894	2,556,320
Insurance Company of New York, 18341	5,054,824
St. James Insurance Co (Bermuda), 98-0413905	23,336,284
Total	\$31,904,128

In addition, the Company commuted one material assumed reinsurance treaty in the current year with an affiliate, Liberty Life Assurance Company. The net effect of the commutation was a decrease in loss and loss adjustment expense of \$56,236,410 and an increase in earned premium of \$999,291. These amounts are shown below by Income Statement classification.

Income Statement Classification	Amount
Losses Incurred	\$(56,236,410)
Loss Adjustment Expenses Incurred	0
Premiums Earned	999,291
Other	0
Total	\$(57,235,701)

## NOTES TO FINANCIAL STATEMENTS

- F. The Company has three assumed and eight ceded retroactive contracts that transferred liabilities for losses that had already occurred. The impact of the intercompany pooling arrangement is also shown.

		Assumed	Ceded
a.	Reserves Transferred:		
	1. Initial Reserves	\$134,258,157	\$1,557,021,029
	2. Adjustment – Prior Year(s)	(91,132,630)	(161,707,701)
	3. Adjustment – Current Year	(28,369,683)	(40,472,310)
	4. Total	\$14,755,844	\$1,354,841,018
b.	Consideration Paid or Received:		
	1. Initial Reserves	\$137,850,187	\$751,841,089
	2. Adjustment – Prior Year(s)	(38,936,843)	(13,036,477)
	3. Adjustment – Current Year	-	-
	4. Total	\$98,913,344	\$738,804,612
c.	Amounts Recovered / Paid - Cumulative		
	1. Initial Reserves	\$12,974,917	\$6,389,067
	2. Adjustment – Prior Year(s)	40,480,323	96,504,538
	3. Adjustment – Current Year	28,811,091	36,860,020
	4. Total	\$82,266,331	\$139,753,625
d.	Special Surplus from Retroactive Reinsurance		
	1. Initial Reserves	\$ (9,382,887)	\$ (811,569,007)
	2. Adjustment – Prior Year(s)	11,715,464	52,166,686
	3. Adjustment – Current Year	(441,408)	3,612,290
	4. Total	\$1,891,169	\$(755,790,031)
e.	Other insurers included in the above transactions:		
	Allianz Cornhill International, AA-1120140	\$10,997,000	\$0
	Employers Insurance Company of Wausau, 21458	3,019,888	0
	Wetereau Insurance Co. Ltd., AA-33191047	738,956	0
	National Indemnity Insurance Company, 20087		897,875,894
	North American Specialty Insurance Company, 29874		698,399,667
	Partner Re, AA-3190686		235,589,667
	ACE INA Overseas Insurance Company, AA-1560515		124,406,000
	Federal Insurance Company, 20281		67,539,570
	Ashmont Insurance Company Ltd., 10438		2,207,491
	North European Financial Re, 1995 2210 680		3,571,200
	AAACWJ Insurance Company, 21-0581060		332,031
	Employers Insurance Company of Wausau, 21458		(322,426,508)
	Liberty Mutual Fire Insurance Company, 23035		(201,516,567)
	Liberty Insurance Corporation, 42404		(120,909,940)
	Wausau Business Insurance Company, 26069		(8,060,663)
	Wausau General Insurance Company, 26425		(8,060,663)
	Wausau Underwriters Insurance Company, 26042		(8,060,663)
	LM Insurance Corporation, 33600		(4,030,331)
	The First Liberty Insurance Corporation, 33588		(2,015,167)
	Total	\$14,755,844	\$1,354,841,018

- f. There are no reinsurance contracts covering losses that have occurred prior to the inception of the contract that have not been accounted for in conformity with the NAIC Accounting Practices and Procedures Manual.

- G. The following reinsurers have equity balances that are accounted for under deposit accounting as of December 31, 2004:

Reinsurer	Federal ID No.	Deposit Premium	Deposit Losses
Stuart Insurance Group	AA-3190330	\$1,449,889	\$520,223
Signature Insurance Company	AA-3770174	\$500,000	0

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

- A. Accrued retrospective premiums reported in Line 12.3 of the assets have been determined based upon loss experience on business subject to such experience rating adjustment. Accrued retrospectively rated premiums, including all of those relating to bulk IBNR, have been determined by or allocated to individual policyholder accounts.
- B. The Company records accrued retrospective premium as an adjustment to earned premium.
- C. For detail of net premium written subject to retrospective rating features see Schedule P – Part 7A.

## NOTES TO FINANCIAL STATEMENTS

- D. Ten percent of the amount not offset by retrospective return premiums or collateral has been designated non-admitted and charged to surplus.

Total accrued retro premium	\$566,977,557
Less: Non-admitted amount	57,036,114
Admitted amount	\$509,941,443

### 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 increased during 2004 as a result of rising loss development trends in commercial lines including workers' compensation, general liability, and environmental exposures. Original estimates are revised as additional information becomes known regarding individual claims.

A portion of the unfavorable prior year loss development relates to retrospectively rated policies. Additional premium accruals of have been made that partially offset this adverse loss development.

### Note 26- Intercompany Pooling Arrangements

The Company is the lead company of the Liberty Mutual Inter-Company Reinsurance Agreement consisting of the following affiliated companies:

		NAIC Co. #	Pooling %	Line of Business
Lead Company:	Liberty Mutual Insurance Company (LMIC)	23043	66.5%	All Lines
Affiliated Pool Companies:	Employers Insurance Company of Wausau (EICOW)	21458	16.00%	All Lines
	Liberty Mutual Fire Insurance Company (LMFIC)	23035	10.00%	All Lines
	Liberty Insurance Corporation (LIC)	42404	6.00%	All Lines
	Wausau Business Insurance Company (WBIC)	26069	0.40%	All Lines
	Wausau General Insurance Company (WGIC)	26425	0.40%	All Lines
	Wausau Underwriters Insurance Company (WUIC)	26042	0.40%	All Lines
	LM Insurance Corporation (LM Ins Corp)	33600	0.20%	All Lines
	The First Liberty Insurance Corporation (FLIC)	33588	0.10%	All Lines
			100.00%	
100% Quota Share ("Fronted")	Liberty Surplus Insurance Corporation (LSIC)	10725	0.00%	All Lines
Affiliated	Liberty Lloyds of Texas Insurance Company (Lloyds)	11041	0.00%	All Lines
Companies:	Liberty Insurance Company of America (LICA)	10337	0.00%	All Lines
	Liberty Personal Insurance Company (LPIC)	11746	0.00%	All Lines
	Liberty County Mutual Insurance Company (LCMIC)	19544	0.00%	All Lines
	Liberty Insurance Underwriters, Inc. (LIU)	19917	0.00%	All Lines
	Bridgefield Employers Insurance Company (BEIC)	10701	0.00%	All Lines
	Bridgefield Casualty Insurance Company (BCIC)	10335	0.00%	All Lines
	LM Property and Casualty Insurance Company (LMPAC) (formerly Prudential Property and Casualty Insurance Company)	32352	0.00%	All Lines
	LM General Insurance Company (LMGIC) (formerly Prudential General Insurance Company)	36447	0.00%	All Lines
	LM Personal Insurance Company (LMPIC) (formerly Prudential Commercial Insurance Company)	36439	0.00%	All Lines

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

- (a) Except for WBIC, WGIC and WUIC, each Affiliated Pool Company cedes its underwriting activity to the lead company. WBIC, WGIC and WUIC cede 100% of its direct underwriting activity to EICOW.
- (b) With the exception of LMGIC and LMPIC, all fronted companies cede its net underwriting activity to the lead company. LMGIC and LMPIC cede its net underwriting activity to LMPAC.
- (c) After recording the assumed affiliate transactions noted above, the lead company records 100% of its external assumed and ceded reinsurance activity.
- (d) The lead company's remaining underwriting activity, after processing all internal and external reinsurance, is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above.
- (e) There were no members that are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement and have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.
- (f) There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the lead company and corresponding entries on the assumed and ceded reinsurance schedules of other pooled participants.

## NOTES TO FINANCIAL STATEMENTS

- (g) The write-off of uncollectible reinsurance is pooled and the provision for reinsurance is recognized by the entity placing the outbound external reinsurance.

During 2004, the following changes were made to the pool:

Pursuant to the approval of the appropriate State Insurance Departments, effective January 1, 2004, Golden Eagle Insurance Corporation (GEIC) and Montgomery Mutual Insurance Company (MMU), cancelled its participation in the Liberty Mutual Inter-Company Reinsurance Agreement and concurrently became a member of the Liberty Insurance Holdings (LIH) Inter-Company Reinsurance Agreement.

Also effective January 1, 2004, Golden Eagle Insurance Company entered into a Fronting Agreement with Liberty Mutual Insurance Company (LMIC), the lead company in the Liberty Mutual Inter-Company Reinsurance Agreement, whereby it would continue to cede 100% of its workers' compensation activity to LMIC.

Additionally, pursuant to the approval of the appropriate state insurance departments, effective January 1, 2004, Merchants & Business Men's Mutual Insurance Company and Colorado Casualty Insurance Company cancelled its fronting agreements with LMIC and concurrently entered into Fronting Agreements with Peerless Insurance Company (PIC), the lead company in the LIH Inter-Company Reinsurance Agreement. Under the terms of the Fronting Agreements, after external reinsurance, each company would cede 100% of its direct underwriting activity to PIC.

The above transactions resulted in LMIC returning to the companies their in-force business as of January 1, 2004 (except for GEIC's workers' compensation business) and compensated the companies by a like amount. There were no gains or losses to surplus as a result.

Also effective January 1, 2004, LMIC's Pool Participation percentage increased by 3.3% from 63.2 % to 66.5%. The pool percentages of remaining pool members did not change.

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

- (a) As a result of purchased annuities with the claimant as payee, The Company no longer carries reserves of \$1,213,631,437 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 \$1,213,631,437 as of December 31, 2004.
- (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:

<u>Life Ins. Company and Location</u>	<u>Licensed in Company's State of Domicile Yes/No</u>	<u>Statement Value of Annuities</u>
The Prudential Insurance Company of America Newark, New Jersey	Yes	\$ 438,627,487
Liberty Life Assurance Company of Boston Boston, Massachusetts	Yes	\$ 367,177,172
Nationwide Life Insurance Company Columbus, Ohio	Yes	\$ 113,972,791

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

Not applicable

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

Not applicable

### **Note 30 - Premium Deficiency Reserves**

As of December 31, 2004, 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**

As of December 31, 2004, the amount of reserve credit recorded for high dollar deductible policies on unpaid losses was \$2,529,440,490 and the amount billed and recoverable on paid claims was \$157,469,149.

### **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 4.0%. The December 31, 2004, liabilities include \$6,100,815,287 of liabilities carried at a discounted value of \$5,238,489,000 representing a discount of \$862,326,287.

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

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## NOTES TO FINANCIAL STATEMENTS

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### Note 33 - Asbestos/Environmental Reserves

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

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

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

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

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

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

#### Uncertainty Regarding Reserving Methodologies

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

During the fourth quarter of 2004, the Company completed a comprehensive ground-up study of its environmental reserves. The study was performed with the assistance of an independent actuarial firm, and focused on the implications of claim and litigation trends and other significant developments. The study encompassed the Company's liabilities with respect to both National Priority List (NPL) claims and direct site claims involving the presence of hazardous waste at sites owned or operated by the insured. As a result of the ground-up study, the Company increased net loss and ALAE reserves by \$210,130,624.

#### 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 pooled companies. Net reserves for asbestos and environmental are allocated based on the Company's Intercompany Reinsurance Agreement as discussed in Note 26.

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**NOTES TO FINANCIAL STATEMENTS**


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**Asbestos:**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Gross of Reinsurance Basis (all Liberty pooled companies)</b>					
Beginning Reserves	\$1,263,028,000	\$1,394,737,000	\$1,465,333,000	\$1,666,019,000	\$1,840,688,000
Incurred losses and LAE	341,317,000	290,738,629	494,293,434	542,256,000	674,113,842
Calendar year payments	209,608,000	220,142,629	293,607,434	367,587,000	322,748,521
Ending Reserves	<u>\$1,394,737,000</u>	<u>\$1,465,333,000</u>	<u>\$1,666,019,000</u>	<u>\$1,840,688,000</u>	<u>\$2,192,053,321</u>
<b>Net of Reinsurance Basis</b>					
Beginning Reserves	\$468,794,410	\$518,028,350	\$560,570,395	\$638,409,310	\$747,851,685
Incurred losses and LAE	145,416,215	118,273,575	193,068,120	208,146,995	2,348,739
Calendar year payments	96,182,275	75,731,530	115,229,205	98,704,620	117,474,153
Ending Reserves	<u>\$518,028,350</u>	<u>\$560,570,395</u>	<u>\$638,409,310</u>	<u>\$747,851,685</u>	<u>\$632,726,271</u>

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

Gross of Reinsurance Basis	\$1,050,100,011
Net of Reinsurance Basis:	\$229,502,767

**Ending Reserves for LAE included above (Case,****Bulk & IBNR)**

Gross of Reinsurance Basis	\$501,539,904
Net of Reinsurance Basis:	\$113,026,520

**Environmental:**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Gross of Reinsurance Basis (all Liberty pooled companies)</b>					
Beginning Reserves	\$1,060,390,000	\$829,472,000	\$681,226,000	\$564,371,000	\$377,622,000
Incurred losses and LAE	(114,622,000)	(89,983)	52,734,816	(111,199,000)	480,461,172
Calendar year payments	116,296,000	148,156,017	169,589,816	75,550,000	77,017,816
Ending Reserves	<u>\$829,472,000</u>	<u>\$681,226,000</u>	<u>\$564,371,000</u>	<u>\$377,622,000</u>	<u>\$781,065,356</u>
<b>Net of Reinsurance Basis</b>					
Beginning Reserves	\$442,424,500	\$297,550,260	\$282,886,345	\$203,795,235	\$171,395,770
Incurred losses and LAE	(87,781,995)	59,544,765	(7,241,185)	(5,320,000)	210,130,624
Calendar year payments	57,092,245	74,208,680	71,849,925	27,079,465	31,261,958
Ending Reserves	<u>\$297,550,260</u>	<u>\$282,886,345</u>	<u>\$203,795,235</u>	<u>\$171,395,770</u>	<u>\$350,264,436</u>

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

Gross of Reinsurance Basis	\$553,985,554
Net of Reinsurance Basis:	\$245,215,711

**Ending Reserves for LAE included above (Case, Bulk & IBNR)**

Gross of Reinsurance Basis	\$305,171,037
Net of Reinsurance Basis:	\$146,295,499

**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	928,862,928	4.647	928,862,928	4.647
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	680,837,124	3.406	680,837,124	3.406
1.22 Issued by U.S. government sponsored agencies	626,892,087	3.136	626,892,087	3.136
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	367,285,599	1.838	367,285,599	1.838
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	264,272,480	1.322	264,272,480	1.322
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	156,903,464	0.785	156,903,464	0.785
1.43 Revenue and assessment obligations	96,627,792	0.483	96,627,792	0.483
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	390,690,668	1.955	390,690,668	1.955
1.512 Issued or guaranteed by FNMA and FHLMC	965,598,729	4.831	965,598,729	4.831
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	2,406,482,714	12.040	2,406,482,714	12.040
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	342,693,607	1.715	342,693,607	1.715
1.523 All other	354,367,837	1.773	354,367,837	1.773
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	3,542,806,879	17.725	3,542,806,879	17.725
2.2 Unaffiliated foreign securities	655,848,597	3.281	655,848,597	3.281
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	30,458,227	0.152	30,458,227	0.152
3.2 Preferred stocks:				
3.21 Affiliated	3,797,881	0.019	3,797,881	0.019
3.22 Unaffiliated	96,286,005	0.482	96,286,005	0.482
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	1,015,770,557	5.082	1,015,770,557	5.082
3.4 Other equity securities:				
3.41 Affiliated	3,691,777,264	18.470	3,691,777,264	18.470
3.42 Unaffiliated	233,833,560	1.170	233,833,560	1.170
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	243,801,947	1.220	243,801,947	1.220
5.2 Property held for production of income (includes \$ 1,137,939 of property acquired in satisfaction of debt)	1,137,939	0.006	1,137,939	0.006
5.3 Property held for sale (\$ 0 including property acquired in satisfaction of debt)				
6. Policy loans				
7. Receivables for securities	37,646,647	0.188	37,646,647	0.188
8. Cash, cash equivalents and short-term investments	684,443,263	3.424	684,443,263	3.424
9. Other invested assets	2,168,663,950	10.850	2,168,663,950	10.850
10. Total invested assets	19,987,787,745	100.000	19,987,787,745	100.000



## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

#### GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [ X ] No [ ]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [ X ] No [ ] N/A [ ]
- 1.3 State Regulating? Massachusetts
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [ X ]
- 2.2 If yes, date of change:  
If not previously filed, furnish herewith a certified copy of the instrument as amended. \_\_\_\_\_
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/1999
- 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. 12/31/1999
- 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). 08/15/2001
- 3.4 By what department or departments? Massachusetts  
.....  
.....
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes [ ] No [ X ]  
4.12 renewals? Yes [ ] No [ X ]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [ ] No [ X ]  
4.22 renewals? Yes [ ] No [ X ]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [ X ]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action either formal or informal, if a confidentiality clause is part of the agreement.) Yes [ ] No [ X ]
- 6.2 If yes, give full information  
.....  
.....
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [ X ]
- 7.2 If yes,
- 7.21 State the percentage of foreign control 0 %  
7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

1 Nationality	2 Type of Entity

## GENERAL INTERROGATORIES

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [ ] No [X]  
 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

.....  
 .....

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ ] No [X]  
 8.4 If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

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

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

10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification? Robert T. Muleski  
 175 Berkeley Street, Boston MA 02117  
 VP & Corporate Actuary, Liberty Mutual Insurance Company

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

11.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?  
 .....

- 11.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [X]  
 11.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [X]  
 11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [X]

### BOARD OF DIRECTORS

12. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No [ ]  
 13. 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 [ ]  
 14. 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 which is in or is likely to conflict with the official duties of such person? Yes [X] No [ ]

### FINANCIAL

15.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):  
     15.11 To directors or other officers \$ \_\_\_\_\_  
     15.12 To stockholders not officers \$ \_\_\_\_\_  
     15.13 Trustees, supreme or grand (Fraternal only) \$ \_\_\_\_\_

15.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):  
     15.21 To directors or other officers \$ \_\_\_\_\_  
     15.22 To stockholders not officers \$ \_\_\_\_\_  
     15.23 Trustees, supreme or grand (Fraternal only) \$ \_\_\_\_\_

16.1 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]

16.2 If yes, state the amount thereof at December 31 of the current year:  
     16.21 Rented from others \$ \_\_\_\_\_  
     16.22 Borrowed from others \$ \_\_\_\_\_  
     16.23 Leased from others \$ \_\_\_\_\_  
     16.24 Other \$ \_\_\_\_\_

Disclose in Notes to Financial the nature of each obligation.

17.1 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]

17.2 If answer is yes:  
     17.21 Amount paid as losses or risk adjustment \$ \_\_\_\_\_  
     17.22 Amount paid as expenses \$ \_\_\_\_\_  
     17.23 Other amounts paid \$ \_\_\_\_\_

## GENERAL INTERROGATORIES

### INVESTMENT

18. List the following capital stock information for the reporting entity:

Class	1 Number of Shares Authorized	2 Number of Shares Outstanding	3 Par Value Per Share	4 Redemption Price If Callable	5 Is Dividend Rate Limited?	6 Are Dividends Cumulative?
Preferred					Yes [ ] No [X]	Yes [ ] No [X]
Common	100,000	100,000	100.00	X X X	X X X X X X	X X X X X X

19.1 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 [ ]

19.2 If no, give full and complete information, relating thereto  
 .....  
 .....

20.1 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 16.1). Yes [X] No [ ]

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

20.21 Loaned to others	\$ _____
20.22 Subject to repurchase agreements	\$ _____
20.23 Subject to reverse repurchase agreements	\$ _____
20.24 Subject to dollar repurchase agreements	\$ _____
20.25 Subject to reverse dollar repurchase agreements	\$ _____
20.26 Pledged as collateral	\$ <u>339,957,881</u>
20.27 Placed under option agreements	\$ _____
20.28 Letter stock or securities restricted as to sale	\$ _____
20.29 Other	\$ _____

20.3 For category (20.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

21.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [X]

21.2 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.

22.1 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]

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

## GENERAL INTERROGATORIES

### INVESTMENT

23. 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 [ ]

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

1 Name of Custodian(s)	2 Custodian's Address
JP MORGAN CHASE	3 Chase Metro Tech Center, Brooklyn, NY 11245
ROYAL TRUST / RBC	77 King Street West, Toronto, Ontario 1P9
BANK OF JAPAN	2-1-1 Nihonbashi, Hongokucho, Chuo-ku, Toyko, Japan
JP MORGAN CHASE	259 George St., Sydney, Australia

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

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

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year? Yes [ ] No [ X ]

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

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

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

1 Central Registration Depository Number(s)	2 Name	3 Address
105247	Barclays Global Investors	45 Fremont St. San Francisco, CA 94105
104886	Newport Pacific Management	580 California St, San Francisco, CA 94104
106631	Putnam Advisory Company	1 Post Office Sq, Boston, MA 02109
2528	Lazard Asset Management	30 Rockefeller Plaza, New York, NY 10112
105926	AIG Global Investment Corp.	175 Water St, New York, NY 10038

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

24.2 If yes, complete the following schedule:

1 CUSIP#	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
9999999	Total	

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

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation

## GENERAL INTERROGATORIES

### INVESTMENT

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

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
25.1 Bonds	12,223,238,474	12,577,987,559	354,749,085
25.2 Preferred stocks	100,083,886	96,486,077	(3,597,809)
25.3 Totals	12,323,322,360	12,674,473,636	351,151,276

25.4 Describe the sources or methods utilized in determining the fair values: Fair values are based on quoted market prices when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services.

26.1 Have all the filing requirements of the Purposes and Procedures manual of the NAIC Securities Valuation Office been followed? Yes [ X ] No [ ]

26.2 If no, list exceptions:  
 .....  
 .....

### OTHER

27.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any? \$ 30,519,984

27.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

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

28.1 Amount of payments for legal expenses, if any? \$ 8,581,739

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

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

29.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or department of government, if any? \$ 1,645,363

29.2 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 department of government during the period covered by this statement.

1 Name	2 Amount Paid
Akin, Gump, Strauss, Hauer & Feld	\$ 842,313
	\$
	\$
	\$
	\$

**GENERAL INTERROGATORIES**

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

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

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

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

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

2. Health Test:

	1	2
	Current Year	Prior Year
2.1 Premium Numerator	\$ 52,363	\$ _____
2.2 Premium Denominator	\$ 6,449,237,498	\$ _____
2.3 Premium Ratio (2.1/2.2)	_____	_____
2.4 Reserve Numerator	\$ 2,907,810	\$ _____
2.5 Reserve Denominator	\$ 10,641,240,783	\$ _____
2.6 Reserve Ratio (2.4/2.5)	_____	_____

3.1 Does the reporting entity issue both participating and non-participating policies? YES  NO   
 3.2 If yes, state the amount of calendar year premiums written on:  
     3.21 Participating policies \$ 2,114,869,244  
     3.22 Non-participating policies \$ 859,223

4. For Mutual Reporting Entities and Reciprocal Exchange only:  
 4.1 Does the reporting entity issue assessable policies? YES  NO   
 4.2 Does the reporting entity issue non-assessable policies? YES  NO   
 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   
 5.2 If yes, is the commission paid:  
     5.21 Out of Attorney's-in-fact compensation YES  NO  N/A   
     5.22 As a direct expense of the exchange YES  NO  N/A

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   
 5.5 If yes, give full information \_\_\_\_\_  
 \_\_\_\_\_

**GENERAL INTERROGATORIES**  
(Continued)

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

- 6.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit of loss: In 2004 the company purchased a Workers' Compensation Catastrophe treaty with limits of \$400mm xs \$100mm.
- 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 employs industry-recognized catastrophe modeling software to estimate its probable maximum loss. For property exposures it employs RiskLink v 4.4 from RMS and AIR v 6.0.0 from AIR for windstorm and earthquake. For WC it employs RiskLink v 4.3 from RMS. Relative exposure concentrations can be found in the Northeast and Florida.
- 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 addition to the Workers' Compensation Catastrophe treaty, the company purchased a Property Catastrophe treaty with limits of \$884mm part of \$1bb xs \$250mm in 2004. The company participated in the Florida Hurricane Catastrophe Fund to the maximum extent allowed and participated in the California Earthquake Authority. Coverage is sufficient to protect against the company's 250 year modeled 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 which includes a provision which 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. 4
- 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. 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
- 10.1 Has the reporting entity guaranteed policies issued by any other entity and now in force? YES  NO
- 10.2 If yes, give full information The company guarantees policies issued by Liberty Life Assurance Company of Boston and Liberty Mutual Insurance Europe Ltd.
- 11.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 12.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- |  |       |   |                         |
|--|-------|---|-------------------------|
|  | 11.11 | Unpaid losses   | \$ <u>1,058,582,772</u> |
|  | 11.12 | Unpaid underwriting expenses (including loss adjustment expenses) | \$ <u>121,920,143</u>   |
- 11.2 Of the amount on Line 12.3 of the asset schedule, Page 2, state the amount which is secured by letters of credit, collateral and other funds? \$ 281,433,651
- 11.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? YES  NO  N/A
- 11.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
- |  |       |      |                 |
|--|-------|------|-----------------|
|  | 11.41 | From | <u>4.000 %</u>  |
|  | 11.42 | To   | <u>10.000 %</u> |
- 11.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium or promissory notes taken by a reporting entity, or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? YES  NO
- 11.6 If yes, state the amount thereof at December 31 of current year:
- |  |       |                            |                         |
|--|-------|----------------------------|-------------------------|
|  | 11.61 | Letters of Credit          | \$ <u>4,667,215,196</u> |
|  | 11.62 | Collateral and other funds | \$ <u>468,565,055</u>   |
- 12.1 What amount of installment notes is owned and now held by the reporting entity? \$ \_\_\_\_\_
- 12.2 Have any of these notes been hypothecated, sold or used in any manner as security for money loaned within the past year? YES  NO
- 12.3 If yes, what amount? \$ \_\_\_\_\_
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ 64,505,000
- 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
- 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. 5

**GENERAL INTERROGATORIES**  
(Continued)

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

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

14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants: .....

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

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

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

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

15.2 If yes, give full information .....

16.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? YES [X] NO [ ]

16.11	Name of real estate holding company	LRE Properties
16.12	Number of parcels involved	<u>2</u>
16.13	Total book/adjusted carrying value	<u>\$ 69,121,471</u>

16.2 If yes, provide explanation  
Indirectly owns 100% of the LRE Properties .....

17.1 Does the reporting entity write any warranty business? YES [ ] NO [X]

If yes, disclose the following information for each of the following types of warranty coverage: YES [ ] NO [X]

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

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



**FIVE-YEAR HISTORICAL DATA**

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

	1 2004	2 2003	3 2002	4 2001	5 2000
<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)	8,556,639,474	7,684,489,319	6,715,251,623	5,492,432,307	5,416,294,526
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	2,106,544,565	1,904,646,200	1,669,625,530	1,524,814,830	1,432,431,192
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,684,367,521	1,698,258,022	1,411,525,856	1,170,448,698	1,126,080,370
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	423,297,509	527,055,474	629,273,817	643,042,904	645,819,071
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)	126,957,992	238,081,809	162,609,082	113,226,197	87,515,817
6. Total (Line 34)	12,897,807,061	12,052,530,824	10,588,285,908	8,943,964,936	8,708,140,976
<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)	4,383,902,397	3,641,666,075	3,165,529,803	2,755,171,042	2,731,337,159
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	1,193,878,941	1,032,128,554	963,879,268	888,491,180	788,533,795
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	945,591,093	912,147,358	742,715,587	644,327,569	628,237,297
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	94,175,379	111,968,371	338,971,669	344,413,129	380,288,987
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)	80,931,381	139,970,917	91,698,693	28,598,258	51,354,249
12. Total (Line 34)	6,698,479,191	5,837,881,275	5,302,795,020	4,661,001,178	4,579,751,487
<b>Statement of Income</b> (Page 4)					
13. Net underwriting gain (loss) (Line 8)	(497,103,623)	(552,743,624)	(436,569,273)	(1,480,404,871)	(776,705,302)
14. Net investment gain (loss) (Line 11)	822,517,261	784,044,296	861,384,872	729,203,163	816,636,658
15. Total other income (Line 15)	(120,642,855)	(149,310,470)	(80,469,896)	418,530,655	147,054,173
16. Dividends to policyholders (Line 17)	26,222,615	(1,517,657)	40,871,676	48,673,975	59,089,905
17. Federal and foreign income taxes incurred (Line 19)	(38,311,422)	(10,157,457)	(40,318,928)	(68,438,344)	3,526,853
18. Net income (Line 20)	216,859,590	93,665,316	343,792,955	(312,906,684)	124,368,771
<b>Balance Sheet Lines</b> (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	23,956,964,668	22,145,151,648	19,296,498,887	19,151,797,502	19,161,359,596
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 12.1)	609,392,140	673,579,903	622,435,981	562,502,633	392,147,053
20.2 Deferred and not yet due (Line 12.2)	1,273,321,091	973,405,672	816,117,738	657,176,364	652,042,901
20.3 Accrued retrospective premiums (Line 12.3)	509,941,443	503,447,580	440,666,485	454,262,065	392,621,729
21. Total liabilities excluding protected cell business (Page 3, Line 24)	16,701,614,750	16,022,057,314	15,288,749,667	14,675,590,384	13,643,650,567
22. Losses (Page 3, Lines 1 and 2)	8,942,817,093	8,363,851,842	7,855,730,763	8,155,366,845	7,804,687,352
23. Loss adjustment expenses (Page 3, Line 3)	1,698,423,690	1,648,044,862	1,494,942,432	1,578,720,778	1,626,162,633
24. Unearned premiums (Page 3, Line 9)	2,682,556,143	2,423,884,665	2,032,173,547	1,736,409,621	1,612,130,587
25. Capital paid up (Page 3, Lines 28 & 29)	10,000,000	10,000,000	10,000,000	10,000,000	
26. Surplus as regards policyholders (Page 3, Line 35)	7,255,349,918	6,123,094,334	4,007,749,220	4,476,207,118	5,517,709,029
<b>Risk-Based Capital Analysis</b>					
27. Total adjusted capital	7,297,299,791	6,154,213,257	4,032,000,824	4,498,205,707	5,721,550,599
28. Authorized control level risk-based capital	1,590,667,365	1,708,635,780	1,417,595,875	1,250,085,742	1,324,770,940
<b>Percentage Distribution of Cash and Invested Assets</b> (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
29. Bonds (Line 1)	58.9	59.4	55.3	50.8	52.7
30. Stocks (Lines 2.1 & 2.2)	25.4	31.1	31.4	37.9	38.8
31. Mortgage loans on real estate (Lines 3.1 and 3.2)					
32. Real estate (Lines 4.1, 4.2 & 4.3)	1.2	1.3	1.2	1.0	0.9
33. Cash and short-term investments (Line 5)	3.4	2.5	7.2	5.8	3.0
34. Contract loans (Line 6)			XXX	XXX	XXX
35. Other invested assets (Line 7)	10.8	5.7	4.8	4.4	4.4
36. Receivable for securities (Line 8)	0.2	0.1	0.1		0.9
37. Aggregate write-ins for invested assets (Line 9)					
38. Cash 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)	2				100,000,000
40. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)	3,797,881	11,152,881	11,152,881	10,229,189	8,402,869
41. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 2)	3,691,777,264	4,176,578,575	3,848,727,170	4,044,842,479	4,378,319,299
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				289,801,227	237,345,901
45. Total of above Lines 39 to 44	3,695,575,147	4,187,731,456	3,859,880,051	4,344,872,895	4,724,068,069
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)	50.9	68.4	96.3	97.0	85.6

## FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2004	2 2003	3 2002	4 2001	5 2000
<b>Capital and Surplus Accounts</b> (Page 4)					
47. Net unrealized capital gains (losses) (Line 23)	373,180,256	568,313,452	(807,003,240)	(809,356,199)	(196,877,225)
48. Dividends to stockholders (Line 34)			2,210,000	(2,210,000)	
49. Change in surplus as regards policyholders for the year (Line 37)	1,132,255,584	2,115,345,114	(468,457,898)	(1,041,501,911)	(31,736,665)
<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)	5,259,538,361	4,272,433,449	4,591,838,985	4,891,252,109	4,624,503,488
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	965,040,593	905,262,632	848,160,867	955,618,279	923,371,654
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,002,156,124	667,265,848	701,337,181	824,881,014	707,264,987
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	951,457,166	337,627,913	500,744,014	443,882,276	414,190,283
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	87,681,215	107,004,255	125,321,904	84,101,085	102,425,608
55. Total (Line 34)	8,265,873,459	6,289,594,097	6,767,402,951	7,199,734,763	6,771,756,020
<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)	2,324,106,243	2,129,589,960	2,473,619,850	2,434,118,074	2,836,061,335
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	513,192,188	481,588,572	481,489,450	552,050,076	521,172,836
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	569,510,755	374,092,504	420,799,538	493,615,620	421,221,323
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	319,505,288	185,208,608	273,401,770	235,171,560	254,923,747
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(3,815,981)	64,067,666	66,538,469	45,384,638	58,989,838
61. Total (Line 34)	3,722,498,493	3,234,547,310	3,715,849,077	3,760,339,968	4,092,369,079
<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)	66.5	66.4	68.6	89.1	76.6
64. Loss expenses incurred (Line 3)	16.3	19.1	16.4	17.0	16.0
65. Other underwriting expenses incurred (Line 4)	24.9	24.4	100.2	25.9	24.6
66. Net underwriting gain (loss) (Line 8)	(7.7)	(10.0)	(8.8)	(32.0)	(17.3)
<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)	25.8	25.7	23.8	16.7	20.9
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	82.8	85.5	85.1	106.1	92.7
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)	92.3	95.3	132.3	104.1	83.0
<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)	228,846	463,785	385,224	761,529	210,145
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)	3.7	11.5	8.6	17.0	3.8
<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)	1,096,707	973,675	1,458,294	1,000,130	(4,459)
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)	27.4	21.7	26.4	18.0	(0.1)

### SCHEDULE D - SUMMARY BY COUNTRY

Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
<b>BONDS</b>					
Governments (Including all obligations guaranteed by governments)	1. United States	2,241,629,357	2,295,956,350	2,251,561,275	2,133,520,183
	2. Canada	300,100,406	257,694,081	258,493,749	294,962,502
	3. Other Countries	31,944,147	25,391,256	29,676,313	30,349,944
	4. Totals	2,573,673,910	2,579,041,687	2,539,731,337	2,458,832,629
States, Territories and Possessions (Direct and guaranteed)	5. United States	264,272,480	276,575,262	263,983,272	266,074,000
	6. Canada	6,171,565	5,238,963	5,721,573	5,824,112
	7. Other Countries				
8. Totals	270,444,045	281,814,225	269,704,845	271,898,112	
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States	156,903,466	161,948,167	156,840,801	157,555,000
	10. Canada				
	11. Other Countries				
12. Totals	156,903,466	161,948,167	156,840,801	157,555,000	
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States	4,199,066,737	4,247,114,354	4,199,826,846	4,180,032,002
	14. Canada	29,069,481	24,406,717	24,805,735	27,845,627
	15. Other Countries				
16. Totals	4,228,136,218	4,271,521,071	4,224,632,581	4,207,877,629	
Public Utilities (unaffiliated)	17. United States	413,226,668	422,852,175	413,824,911	403,642,000
	18. Canada	4,850,000	5,128,875	4,850,000	4,850,000
	19. Other Countries	1,253,500	978,071	1,123,022	1,170,375
	20. Totals	419,330,168	428,959,121	419,797,933	409,662,375
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States	3,481,937,601	3,607,147,959	3,487,516,925	3,437,889,067
	22. Canada	338,384,667	307,581,450	290,354,719	334,659,876
	23. Other Countries	311,360,431	293,538,670	295,513,961	311,139,406
	24. Totals	4,131,682,699	4,208,268,079	4,073,385,605	4,083,688,349
Parent, Subsidiaries and Affiliates	25. Totals	2	4,100,000	2	4,100,000
	<b>26. Total Bonds</b>	<b>11,780,170,508</b>	<b>11,935,652,350</b>	<b>11,684,093,104</b>	<b>11,593,614,094</b>
<b>PREFERRED STOCKS</b>					
Public Utilities (unaffiliated)	27. United States	8,946,120	9,403,209	10,768,282	
	28. Canada				
	29. Other Countries				
30. Totals	8,946,120	9,403,209	10,768,282		
Banks, Trust and Insurance Companies (unaffiliated)	31. United States				
	32. Canada				
	33. Other Countries				
34. Totals					
Industrial and Miscellaneous (unaffiliated)	35. United States	85,792,355	97,976,228	87,052,077	
	36. Canada				
	37. Other Countries	1,547,530	1,547,530	1,529,298	
38. Totals	87,339,885	99,523,758	88,581,375		
Parent, Subsidiaries and Affiliates	39. Totals	3,797,881	3,797,881	3,797,881	
	<b>40. Total Preferred Stocks</b>	<b>100,083,886</b>	<b>112,724,848</b>	<b>103,147,538</b>	
<b>COMMON STOCKS</b>					
Public Utilities (unaffiliated)	41. United States	94,049,380	94,049,380	77,181,601	
	42. Canada				
	43. Other Countries	2,795,478	2,795,478	2,429,577	
44. Totals	96,844,858	96,844,858	79,611,178		
Banks, Trust and Insurance Companies (unaffiliated)	45. United States	87,133,282	87,133,282	45,911,952	
	46. Canada	955,185	955,185	644,424	
	47. Other Countries	8,991,016	8,991,016	7,490,682	
48. Totals	97,079,483	97,079,483	54,047,058		
Industrial and Miscellaneous (unaffiliated)	49. United States	891,787,713	891,787,713	508,271,622	
	50. Canada	3	3	3	
	51. Other Countries	194,350,285	194,350,285	146,235,609	
52. Totals	1,086,138,001	1,086,138,001	654,507,234		
Parent, Subsidiaries and Affiliates	53. Totals	3,691,777,264	3,691,777,264	3,800,822,844	
	<b>54. Total Common Stocks</b>	<b>4,971,839,606</b>	<b>4,971,839,606</b>	<b>4,588,988,314</b>	
	55. Total Stocks	5,071,923,492	5,084,564,454	4,692,135,852	
	56. Total Bonds and Stocks	16,852,094,000	17,020,216,804	16,376,228,956	

### SCHEDULE D - VERIFICATION BETWEEN YEARS

1. Book/adjusted carrying value of bonds and stocks, prior year	15,479,414,988	6. Foreign Exchange Adjustment:	
2. Cost of bonds and stocks acquired, Column 7, Part 3	9,641,994,748	6.1 Column 15, Part 1	51,434,723
3. Increase (decrease) by adjustment:		6.2 Column 19, Part 2, Section 1	
3.1 Columns 12 + 13 - 14, Part 1	(17,827,040)	6.3 Column 16, Part 2, Section 2	309,193
3.2 Column 18, Part 2, Section 1	(10,982,390)	6.4 Column 15, Part 4	(16,382,040)
3.3 Column 15, Part 2, Section 2	315,000,963	7. Book/adjusted carrying value at end of current period	16,852,094,003
3.4 Column 14, Part 4	238,615,178	8. Total valuation allowance	
4. Total gain (loss), Column 19, Part 4	184,367,049	9. Subtotal (Lines 7 plus 8)	16,852,094,003
5. Deduct consideration for bonds and stocks disposed of Column 7, Part 4	9,013,851,369	10. Total nonadmitted amounts	
		11. Statement value of bonds and stocks, current period	16,852,094,003

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

**SCHEDULE P-PART 1-SUMMARY**

(\$000 omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments							12 Number of Claims Reported - Direct and Assumed	
	1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10 Salvage and Subrogation Received		11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)
				4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded			
1. Prior	X X X	X X X	X X X	494,022	191,423	149,372	57,663	26,447	16,380	9,354	404,375	X X X
2. 1995	6,123,059	1,063,563	5,059,496	4,101,187	659,697	282,568	25,916	452,794	2,713	119,935	4,148,223	X X X
3. 1996	5,768,695	856,179	4,912,516	4,120,737	588,054	312,868	25,140	439,055	1,383	134,294	4,258,083	X X X
4. 1997	5,625,097	700,401	4,924,696	4,158,635	555,212	365,095	36,610	453,672	2,705	132,569	4,382,875	X X X
5. 1998	5,931,043	714,568	5,216,475	4,688,061	589,847	363,786	38,366	504,361	4,540	156,726	4,923,455	X X X
6. 1999	5,887,967	847,001	5,040,966	4,643,414	639,769	368,995	42,873	507,319	7,436	147,123	4,829,650	X X X
7. 2000	6,209,422	1,003,542	5,205,880	4,500,941	727,624	334,121	42,431	481,386	5,660	105,382	4,540,733	X X X
8. 2001	6,448,861	1,038,399	5,410,462	4,203,041	810,318	260,234	34,073	453,134	3,185	122,782	4,068,833	X X X
9. 2002	7,363,091	1,391,015	5,972,076	3,569,762	452,385	185,333	19,366	506,888	2,779	195,167	3,787,453	X X X
10. 2003	8,199,626	1,862,448	6,337,178	2,933,505	538,228	121,552	4,509	517,292	1,354	184,712	3,028,258	X X X
11. 2004	8,529,744	2,078,958	6,450,786	1,893,508	427,566	43,384	4,817	443,286	16,385	108,290	1,931,410	X X X
12. Totals	X X X	X X X	X X X	39,306,813	6,180,123	2,787,308	331,764	4,785,634	64,520	1,416,334	40,303,348	X X X

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding Direct and Assumed
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21 Direct and Assumed	22 Ceded			
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded					
1. Prior	3,472,505	978,699	1,030,671	659,665	207,087	179,449	438,720	200,970	78,850		42,021	3,209,050	X X X
2. 1995	178,702	49,639	42,483	33,507	4,777	1,502	27,031	14,589	3,334		3,078	157,090	X X X
3. 1996	187,831	36,123	45,673	28,219	3,035	205	16,199	4,831	4,765		4,264	188,125	X X X
4. 1997	260,115	42,925	66,289	49,943	7,773	819	22,597	6,494	6,945		4,749	263,538	X X X
5. 1998	359,710	56,937	91,517	69,093	10,382	2,129	29,797	5,873	9,539		5,883	366,913	X X X
6. 1999	434,665	117,984	105,786	79,065	10,687	2,046	47,527	12,154	10,174		7,765	397,590	X X X
7. 2000	498,447	143,255	184,875	140,371	12,408	3,191	55,495	13,317	13,324		10,468	464,415	X X X
8. 2001	647,396	336,041	235,282	162,033	15,018	3,577	88,445	26,488	18,436		15,945	476,438	X X X
9. 2002	785,015	383,167	470,497	379,424	17,896	5,784	150,713	21,103	29,408		25,491	664,051	X X X
10. 2003	888,852	253,965	1,067,510	559,443	25,321	8,082	247,004	31,526	44,177		53,928	1,419,848	X X X
11. 2004	1,144,886	298,397	2,335,692	772,001	24,651	5,611	428,065	45,799	184,418		148,286	2,995,904	X X X
12. Totals	8,858,124	2,697,132	5,676,275	2,932,764	339,035	212,395	1,551,593	383,144	403,370		321,878	10,602,962	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	2,864,812	344,238
2. 1995	5,092,876	787,563	4,305,313	83.175	74.049	85.094			66.500	138,039	19,051
3. 1996	5,130,163	683,955	4,446,208	88.931	79.885	90.508			66.500	169,162	18,963
4. 1997	5,341,121	694,708	4,646,413	94.952	99.187	94.349			66.500	233,536	30,002
5. 1998	6,057,153	766,785	5,290,368	102.126	107.307	101.417			66.500	325,197	41,716
6. 1999	6,128,567	901,327	5,227,240	104.086	106.414	103.695			66.500	343,402	54,188
7. 2000	6,080,997	1,075,849	5,005,148	97.932	107.205	96.144			66.500	399,696	64,719
8. 2001	5,920,986	1,375,715	4,545,271	91.814	132.484	84.009			66.500	384,604	91,834
9. 2002	5,715,512	1,264,008	4,451,504	77.624	90.869	74.539			66.500	492,921	171,130
10. 2003	5,845,213	1,397,107	4,448,106	71.286	75.015	70.191			66.500	1,142,954	276,894
11. 2004	6,497,890	1,570,576	4,927,314	76.179	75.546	76.383			66.500	2,410,180	585,724
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	8,904,503	1,698,459

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
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	One Year	Two Year
1. Prior	9,211,911	8,933,285	9,085,246	8,908,559	8,559,857	8,395,578	8,802,856	9,129,899	9,463,472	9,854,173	390,701	724,274
2. 1995	4,160,996	4,045,039	3,941,083	3,907,526	3,876,101	3,870,083	3,890,095	3,874,072	3,865,142	3,886,400	21,258	12,328
3. 1996	X X X	4,106,447	3,924,890	3,937,214	3,961,708	4,008,054	3,998,257	3,997,155	3,996,639	4,040,985	44,346	43,830
4. 1997	X X X	X X X	3,908,065	3,889,292	4,033,853	4,099,279	4,177,132	4,181,254	4,188,198	4,237,542	49,344	56,288
5. 1998	X X X	X X X	X X X	4,298,438	4,448,047	4,556,709	4,699,857	4,748,974	4,785,449	4,840,097	54,648	91,123
6. 1999	X X X	X X X	X X X	X X X	4,230,578	4,362,921	4,527,970	4,644,555	4,728,608	4,766,061	37,453	121,506
7. 2000	X X X	X X X	X X X	X X X	X X X	4,069,205	4,257,079	4,284,642	4,428,981	4,547,586	118,605	262,944
8. 2001	X X X	X X X	X X X	X X X	X X X	X X X	4,192,274	4,084,382	4,156,813	4,096,886	(59,927)	12,504
9. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X	4,158,258	3,925,125	3,930,168	5,043	(228,090)
10. 2003	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	4,346,850	3,914,225	(432,625)	X X X
11. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	4,364,336	X X X	X X X
12. Totals											228,846	1,096,707

**SCHEDULE P-PART 3-SUMMARY**

Years in Which Losses Were Incurred	Cumulative Paid Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										11	12
	1	2	3	4	5	6	7	8	9	10	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		
1. Prior	000	1,574,460	2,780,741	3,703,988	4,228,750	4,684,474	4,945,969	5,438,380	5,834,308	6,228,616	X X X	X X X
2. 1995	1,614,871	2,439,857	2,874,778	3,158,495	3,358,680	3,487,108	3,565,433	3,620,297	3,656,813	3,698,142	X X X	X X X
3. 1996	X X X	1,713,548	2,494,541	2,930,348	3,261,362	3,482,282	3,626,515	3,715,292	3,761,549	3,820,411	X X X	X X X
4. 1997	X X X	X X X	1,576,148	2,379,887	2,918,590	3,306,476	3,563,796	3,729,921	3,831,640	3,931,908	X X X	X X X
5. 1998	X X X	X X X	X X X	1,725,347	2,768,885	3,386,666	3,843,380	4,106,119	4,285,334	4,423,634	X X X	X X X
6. 1999	X X X	X X X	X X X	X X X	1,714,192	2,724,706	3,359,412	3,810,687	4,114,836	4,329,767	X X X	X X X
7. 2000	X X X	X X X	X X X	X X X	X X X	1,797,872	2,822,487	3,358,175	3,728,264	4,065,007	X X X	X X X
8. 2001	X X X	X X X	X X X	X X X	X X X	X X X	1,893,248	2,855,774	3,333,223	3,618,884	X X X	X X X
9. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X	1,781,702	2,730,186	3,283,344	X X X	X X X
10. 2003	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	1,643,995	2,512,320	X X X	X X X
11. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	1,504,509	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
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Prior	4,080,350	3,026,197	2,570,868	1,990,931	1,344,127	1,190,250	954,913	740,646	759,451	634,931
2. 1995	1,514,786	824,490	508,211	319,028	195,091	141,614	115,994	62,165	34,180	29,410
3. 1996	X X X	1,372,238	710,865	403,414	244,923	183,146	123,076	61,305	25,847	40,655
4. 1997	X X X	X X X	1,289,518	630,980	372,721	247,951	200,490	113,430	55,536	51,544
5. 1998	X X X	X X X	X X X	1,392,277	624,571	357,473	212,600	156,188	72,396	74,090
6. 1999	X X X	X X X	X X X	X X X	1,374,727	652,609	325,851	198,741	115,219	90,060
7. 2000	X X X	X X X	X X X	X X X	X X X	1,126,491	431,394	190,148	130,206	104,389
8. 2001	X X X	X X X	X X X	X X X	X X X	X X X	1,173,271	479,721	287,049	147,084
9. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X	1,255,078	495,652	223,652
10. 2003	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	1,800,394	740,084
11. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	1,987,084

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

States, Etc.	1 Is Insurer Licensed? (Yes or No)	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
		2 Direct Premiums Written	3 Direct Premiums Earned						
1. Alabama	AL	YES	13,886,113	17,887,852	43,136	8,611,456	29,170,853	82,120,628	2,933
2. Alaska	AK	YES	4,631,748	3,929,116		2,172,145	2,899,885	5,181,436	
3. Arizona	AZ	YES	12,382,426	11,072,728	734	13,204,785	4,385,423	17,990,672	7,498
4. Arkansas	AR	YES	8,810,331	8,629,009	36,041	2,799,441	7,854,866	22,767,379	775
5. California	CA	YES	113,957,586	110,621,601	11,642	69,990,904	32,186,021	210,923,585	38,078
6. Colorado	CO	YES	19,210,960	20,446,282	3,496	5,195,391	15,774,194	42,956,899	4,986
7. Connecticut	CT	YES	24,365,030	24,339,641	(1,336)	27,796,459	10,088,217	88,332,770	52,609
8. Delaware	DE	YES	3,752,529	4,386,934	2,021	8,130,205	15,554,825	31,496,889	4,382
9. Dist. Columbia	DC	YES	7,293,889	6,704,634	1,731	2,713,358	17,839,643	37,132,918	3,163
10. Florida	FL	YES	76,970,937	71,235,392	181,133	61,577,098	14,300,843	245,229,435	22,140
11. Georgia	GA	YES	31,496,728	28,251,044	30,370	17,288,957	25,133,887	85,163,792	7,341
12. Hawaii	HI	YES	6,669,812	6,043,396	2,584	2,670,555	1,173,485	5,199,797	3,539
13. Idaho	ID	YES	6,919,251	6,454,253	148	1,924,925	3,073,904	3,920,025	904
14. Illinois	IL	YES	44,334,824	43,642,984	(31,276)	27,455,973	(8,501,051)	183,793,837	15,684
15. Indiana	IN	YES	17,149,400	17,323,420	5,266	14,910,599	9,960,394	33,560,904	5,432
16. Iowa	IA	YES	8,281,135	7,756,473	609	3,694,115	7,232,152	22,974,294	1,436
17. Kansas	KS	YES	12,216,679	11,353,495	(15,882)	4,263,400	4,644,011	14,638,540	645
18. Kentucky	KY	YES	14,676,121	14,950,471	(349)	18,700,752	52,667,723	138,170,285	6,230
19. Louisiana	LA	YES	40,243,411	39,041,453	2,049	15,484,551	24,724,624	83,718,111	5,623
20. Maine	ME	YES	6,266,255	5,790,845	(14)	2,898,854	5,307,471	27,331,659	6,848
21. Maryland	MD	YES	18,050,824	18,356,402	(1,434)	10,793,862	16,766,857	59,573,400	16,851
22. Massachusetts	MA	YES	396,264,837	382,179,045	42,051	270,739,806	276,132,215	542,467,250	4,394,917
23. Michigan	MI	YES	25,799,636	25,970,878	1,600	17,123,743	11,644,802	85,618,977	5,742
24. Minnesota	MN	YES	16,070,603	20,112,975	1,796	5,262,051	21,366,171	57,798,435	7,922
25. Mississippi	MS	YES	13,885,782	13,695,152	160	4,155,226	25,995,113	267,598,042	1,270
26. Missouri	MO	YES	19,180,972	19,590,035	5,680	12,348,367	20,359,800	45,156,780	5,241
27. Montana	MT	YES	2,866,512	3,753,968	3,589	2,001,674	3,705,655	5,603,700	175
28. Nebraska	NE	YES	9,168,340	7,339,316		4,282,674	4,822,022	16,679,316	2,056
29. Nevada	NV	YES	10,080,835	8,482,661		1,426,268	1,029,651	5,179,069	2,642
30. New Hampshire	NH	YES	16,269,754	15,149,547	52,247	7,736,627	12,021,538	49,488,113	60,369
31. New Jersey	NJ	YES	138,414,173	141,768,135	11,393	110,467,024	277,211,910	470,775,017	487,639
32. New Mexico	NM	YES	5,928,031	6,048,731	(2)	7,196,882	12,304,319	12,339,943	765
33. New York	NY	YES	277,345,670	262,348,235	240,953	124,169,588	252,397,520	680,147,531	451,911
34. No. Carolina	NC	YES	77,103,997	70,707,882	(3,257)	35,955,130	41,287,861	107,931,866	490,364
35. No. Dakota	ND	YES	2,229,603	2,083,838		1,393,909	4,747,482	5,300,164	36
36. Ohio	OH	YES	23,407,081	22,494,573		12,538,719	(1,120,292)	97,865,009	12,507
37. Oklahoma	OK	YES	18,325,256	15,863,054	(39,756)	6,705,957	13,581,133	26,633,299	2,101
38. Oregon	OR	YES	12,621,383	12,247,666	56,873	6,794,523	9,010,656	15,948,128	2,927
39. Pennsylvania	PA	YES	54,596,970	58,672,637	20,642	40,670,613	25,588,940	270,692,110	81,830
40. Rhode Island	RI	YES	5,357,461	5,608,810	62	4,773,971	6,294,264	31,150,841	6,792
41. So. Carolina	SC	YES	17,801,895	16,159,684	2,094	7,367,354	8,187,243	37,857,162	2,111
42. So. Dakota	SD	YES	2,357,902	2,203,069	(3)	1,377,868	1,212,888	2,659,287	93
43. Tennessee	TN	YES	23,748,417	24,205,803	30,892	11,398,378	16,192,841	69,617,102	3,862
44. Texas	TX	YES	119,818,611	110,333,723	598,622	52,952,238	55,051,923	281,029,184	22,472
45. Utah	UT	YES	7,334,705	7,224,370	(6)	1,394,854	4,589,026	13,306,299	1,090
46. Vermont	VT	YES	9,376,232	9,241,398	67,633	4,896,114	3,701,827	22,108,171	2,891
47. Virginia	VA	YES	35,940,811	36,142,940	14,397	33,077,297	51,568,795	120,651,735	11,884
48. Washington	WA	YES	13,240,156	12,071,148		4,996,498	1,547,868	10,473,999	4,764
49. West Virginia	WV	YES	3,966,877	3,424,581		1,041,430	(2,458,008)	20,764,796	763
50. Wisconsin	WI	YES	35,742,504	36,850,007	69,216	26,812,212	40,443,598	89,363,498	7,733
51. Wyoming	WY	YES	3,324,086	2,900,316		128,169	393,073	786,312	32
52. American Samoa	AS	NO							
53. Guam	GU	NO	119,073	143,550			72,874	78,869	
54. Puerto Rico	PR	YES	744,544	745,427		2,331,466	3,497,707	7,162,086	
55. U.S. Virgin Islands	VI	YES	769,263	726,405			232,067	680,404	
56. Canada	CN	YES	85,907,195	185,792,465		264,639,941	80,518,955	203,946,359	654,086
57. Aggregate other alien	OT	X X X	139,053,316	167,457,940		17,945,806	229,149,850	453,406,367	
58. Totals	(a)	53	2,115,728,472	2,187,957,389	1,447,545	1,428,380,162	1,804,521,514	5,570,442,475	6,936,084

DETAILS OF WRITE-INS									
5701. Other alien	X X X		139,053,316	167,457,940		17,945,806	229,149,850	453,406,367	
5702.	X X X								
5703.	X X X								
5798. Summary of remaining write-ins for Line 57 from overflow page	X X X								
5799. Totals (Lines 5701 through 5703 + 5798) (Line 57 above)	X X X		139,053,316	167,457,940		17,945,806	229,149,850	453,406,367	

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

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

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



**OVERFLOW PAGE FOR WRITE-INS**

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**OVERFLOW PAGE FOR WRITE-INS**

**Page 2 - Continuation  
ASSETS**

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets

**REMAINING WRITE-INS AGGREGATED AT LINE 9 FOR INVESTED ASSETS**

0904.				
0905.				
0906.				
0907.				
0908.				
0909.				
0910.				
0911.				
0912.				
0913.				
0914.				
0915.				
0916.				
0917.				
0918.				
0919.				
0920.				
0921.				
0922.				
0923.				
0924.				
0925.				
0997. Totals (Lines 0904 through 0925) (Page 2, Line 0998)				

**REMAINING WRITE-INS AGGREGATED AT LINE 23 FOR OTHER THAN INVESTED ASSETS**

2304. Amounts billed & receivable under high deductible policies	158,238,156	4,178,778	154,059,378	143,973,801
2305.				
2306.				
2307.				
2308.				
2309.				
2310.				
2311.				
2312.				
2313.				
2314.				
2315.				
2316.				
2317.				
2318.				
2319.				
2320.				
2321.				
2322.				
2323.				
2324.				
2325.				
2397. Totals (Lines 2304 through 2325) (Page 2, Line 2398)	158,238,156	4,178,778	154,059,378	143,973,801

**OVERFLOW PAGE FOR WRITE-INS**

**Page 3 - Continuation  
LIABILITIES, SURPLUS AND OTHER FUNDS**

	1 Current Year	2 Prior Year
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**REMAINING WRITE-INS AGGREGATED AT LINE 23 FOR LIABILITIES**

2304. Deposit liability	134,181,731	171,215,656
2305. North Carolina 2002 private passenger auto escrow		423,969
2306.		
2307.		
2308.		
2309.		
2310.		
2311.		
2312.		
2313.		
2314.		
2315.		
2316.		
2317.		
2318.		
2319.		
2320.		
2321.		
2322.		
2323.		
2324.		
2325.		
2397. Totals (Lines 2304 through 2325) (Page 3, Line 2398)	134,181,731	171,639,625

**REMAINING WRITE-INS AGGREGATED AT LINE 27 FOR SPECIAL SURPLUS FUNDS**

2704.		
2705.		
2706.		
2707.		
2708.		
2709.		
2710.		
2711.		
2712.		
2713.		
2714.		
2715.		
2716.		
2717.		
2718.		
2719.		
2720.		
2721.		
2722.		
2723.		
2724.		
2725.		
2797. Totals (Lines 2704 through 2725) (Page 3, Line 2798)		

**REMAINING WRITE-INS AGGREGATED AT LINE 30 FOR OTHER THAN SPECIAL SURPLUS FUNDS**

3004.		
3005.		
3006.		
3007.		
3008.		
3009.		
3010.		
3011.		
3012.		
3013.		
3014.		
3015.		
3016.		
3017.		
3018.		
3019.		
3020.		
3021.		
3022.		
3023.		
3024.		
3025.		
3097. Totals (Lines 3004 through 3025) (Page 3, Line 3098)		