

**ANNUAL STATEMENT**

OF THE

**LIBERTY INSURANCE CORPORATION**

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of **SCHAUMBURG**

in the state of **ILLINOIS**

TO THE

**Insurance Department**

OF THE

STATE OF

**FOR THE YEAR ENDED  
December 31, 2007**

PROPERTY AND CASUALTY

**2007**



42404200720100100

ANNUAL STATEMENT

For the Year Ended December 31, 2007

OF THE CONDITION AND AFFAIRS OF THE

Liberty Insurance Corporation

NAIC Group Code 0111 (Current Period) 0111 (Prior Period) NAIC Company Code 42404 Employer's ID Number 03-0316876

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

Country of Domicile United States of America

Incorporated/Organized: October 21, 1988 Commenced Business: November 3, 1988

Statutory Home Office: 900 National Parkway Suite 300 Schaumburg, IL 60173

Main Administrative Office: 175 Berkeley Street Boston, MA 02116 617-357-9500

Mail Address: 175 Berkeley Street Boston, MA 02116

Primary Location of Books and Records: 175 Berkeley Street Boston, MA 02116 617-357-9500

Internet Website Address: www.LibertyMutual.com

Statutory Statement Contact: Joanne Connolly (Name) 617-357-9500 44393 (Area Code)(Telephone Number)(Extension) Joanne.Connolly@LibertyMutual.com (E-Mail Address) 617-574-5955 (Fax Number)

OFFICERS

Table with 2 columns: Name, Title. Rows include Edmund Francis Kelly (Chairman of the Board President & CEO), Dexter Robert Legg (Vice President & Secretary), Laurance Henry Soyer Yahia (Vice President & Treasurer).

Vice-Presidents

Table with 4 columns: Name, Title, Name, Title. Lists various Vice Presidents and their titles.

DIRECTORS OR TRUSTEES

Table with 4 columns: Name, Title, Name, Title. Lists various Directors or Trustees and their titles.

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 lines for Edmund Francis Kelly (Chairman of the Board President & CEO), Dexter Robert Legg (Vice President & Secretary), and Laurance Henry Soyer Yahia (Vice President & Treasurer).

Subscribed and sworn to before me this 22nd day of January, 2008

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

**ASSETS**

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D)	769,634,149		769,634,149	1,327,142,525
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks	75,463,807		75,463,807	73,265,436
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens				
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ 0 encumbrances)				
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ 12,733,308 , Schedule E-Part 1), cash equivalents (\$ 33,115,899 Schedule E-Part 2) and short-term investments (\$ 61,494,265 , Schedule DA)	107,343,472		107,343,472	41,141,422
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)	64,189,541		64,189,541	50,809,463
8. Receivables for securities	126,896		126,896	183,079
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	1,016,757,865		1,016,757,865	1,492,541,925
11. Title plants less \$ 0 charged off (for Title insurers only)				
12. Investment income due and accrued	7,192,065		7,192,065	11,985,412
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	33,261,369	1,410,507	31,850,862	49,386,366
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 1,366 earned but unbilled premiums)	82,514,601	151	82,514,450	165,168,951
13.3 Accrued retrospective premiums	17,341,370	2,017,669	15,323,701	41,748,938
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers				
14.2 Funds held by or deposited with reinsured companies				
14.3 Other amounts receivable under reinsurance contracts				
15. Amounts receivable relating to uninsured plans	102,671	96,347	6,324	
16.1 Current federal and foreign income tax recoverable and interest thereon				
16.2 Net deferred tax asset	51,277,000	25,089,992	26,187,008	45,988,787
17. Guaranty funds receivable or on deposit	1,168,081		1,168,081	2,949,637
18. Electronic data processing equipment and software				
19. Furniture and equipment, including health care delivery assets (\$ 0 )				
20. Net adjustment in assets and liabilities due to foreign exchange rates				
21. Receivables from parent, subsidiaries and affiliates	314,115		314,115	6,771,188
22. Health care (\$ 0 ) and other amounts receivable				
23. Aggregate write-ins for other than invested assets	18,564,915	1,045,223	17,519,692	33,940,839
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	1,228,494,052	29,659,889	1,198,834,163	1,850,482,043
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	1,228,494,052	29,659,889	1,198,834,163	1,850,482,043

DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 09 from overflow page				
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)				
2301. Other assets	1,930,300	642,247	1,288,053	2,611,990
2302. Cash surrender value-life insurance	8,089,944		8,089,944	14,620,056
2303. Equities and deposits in pools and associations	1,274,124		1,274,124	1,849,433
2398. Summary of remaining write-ins for Line 23 from overflow page	7,270,547	402,976	6,867,571	14,859,360
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	18,564,915	1,045,223	17,519,692	33,940,839

<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	497,816,710	917,545,458
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	19,921,654	41,000,108
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	101,685,915	188,083,375
4. Commissions payable, contingent commissions and other similar charges	5,334,736	11,782,314
5. Other expenses (excluding taxes, licenses and fees)	13,960,487	26,764,405
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	9,908,730	18,799,822
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))	14,816,097	12,196,782
7.2 Net deferred tax liability		
8. Borrowed money \$ 0 and interest thereon \$ 0		
9. Unearned premiums (Part 1A, Line 37, Column 5) (after deducting unearned premiums for ceded reinsurance of \$ 402,662,696 and including warranty reserves of \$ 0 )	145,402,747	281,026,096
10. Advance premium	1,580,964	2,052,282
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders	506,035	360,902
12. Ceded reinsurance premiums payable (net of ceding commissions)		
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)		
14. Amounts withheld or retained by company for account of others	2,537,948	30,023,152
15. Remittances and items not allocated		
16. Provision for reinsurance (Schedule F, Part 7)		
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding	11,319,105	24,794,886
19. Payable to parent, subsidiaries and affiliates		
20. Payable for securities		21,409,400
21. Liability for amounts held under uninsured plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	10,046,224	(55,036,350)
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	834,837,352	1,520,802,632
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	834,837,352	1,520,802,632
27. Aggregate write-ins for special surplus funds	37,504,957	73,185,169
28. Common capital stock	3,500,000	3,500,000
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes		
32. Gross paid in and contributed surplus	156,162,500	156,162,500
33. Unassigned funds (surplus)	166,829,353	96,831,742
34. Less treasury stock, at cost:		
34.1 0 shares common (value included in Line 28 \$ 0 )		
34.2 0 shares preferred (value included in Line 29 \$ 0 )		
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 39)	363,996,810	329,679,411
36. TOTALS (Page 2, Line 26, Col. 3)	1,198,834,162	1,850,482,043

<b>DETAILS OF WRITE-INS</b>		
2301. Other liabilities	6,537,945	13,967,323
2302. Retroactive reinsurance reserve - ceded	(68,429,567)	(137,755,955)
2303. Amounts held under uninsured plans	22,375,524	43,832,586
2398. Summary of remaining write-ins for Line 23 from overflow page	49,562,322	24,919,696
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	10,046,224	(55,036,350)
2701. Special surplus from retroactive reinsurance	37,504,957	73,185,169
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)	37,504,957	73,185,169
3001. ....		
3002. ....		
3003. ....		
3098. Summary of remaining write-ins for Line 30 from overflow page		
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)		

<b>STATEMENT OF INCOME</b>		1	2
		Current Year	Prior Year
<b>UNDERWRITING INCOME</b>			
1. Premiums earned (Part 1, Line 34, Column 4)		354,021,399	682,284,790
DEDUCTIONS			
2. Losses incurred (Part 2, Line 34, Column 7)		219,247,383	416,921,237
3. Loss expenses incurred (Part 3, Line 25, Column 1)		56,130,372	104,124,263
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)		98,261,213	182,737,450
5. Aggregate write-ins for underwriting deductions			
6. Total underwriting deductions (Lines 2 through 5)		373,638,968	703,782,950
7. Net income of protected cells			
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)		(19,617,569)	(21,498,160)
<b>INVESTMENT INCOME</b>			
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)		58,674,486	72,696,050
10. Net realized capital gains (losses) less capital gains tax of \$ 1,816,629 (Exhibit of Capital Gains (Losses))		3,373,740	3,271,312
11. Net investment gain (loss) (Lines 9 + 10)		62,048,226	75,967,362
<b>OTHER INCOME</b>			
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 96,953 amount charged off \$ 734,193 )		(637,239)	(953,629)
13. Finance and service charges not included in premiums		1,694,905	3,300,999
14. Aggregate write-ins for miscellaneous income		(4,272,976)	(7,247,139)
15. Total other income (Lines 12 through 14)		(3,215,310)	(4,899,769)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)		39,215,347	49,569,433
17. Dividends to policyholders		2,093,178	3,061,656
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)		37,122,169	46,507,777
19. Federal and foreign income taxes incurred		(17,572,669)	22,744,318
20. Net income (Line 18 minus Line 19) (to Line 22)		54,694,838	23,763,459
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)		329,679,411	290,796,970
22. Net income (from Line 20)		54,694,838	23,763,459
23. Net transfers (to) from Protected Cell accounts			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ (30,240)		(56,161)	4,174,688
25. Change in net unrealized foreign exchange capital gain (loss)			
26. Change in net deferred income tax		(33,989,240)	13,615,907
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)		17,970,666	(2,892,852)
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)			
29. Change in surplus notes			
30. Surplus (contributed to) withdrawn from protected cells			
31. Cumulative effect of changes in accounting principles			
32. Capital changes:			
32.1 Paid in			
32.2 Transferred from surplus (Stock Dividend)			
32.3 Transferred to surplus			
33. Surplus adjustments:			
33.1 Paid in			
33.2 Transferred to capital (Stock Dividend)			
33.3 Transferred from capital			
34. Net remittances from or (to) Home Office			
35. Dividends to stockholders			
36. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)			
37. Aggregate write-ins for gains and losses in surplus		(4,302,704)	221,239
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)		34,317,399	38,882,441
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)		363,996,810	329,679,411
<b>DETAILS OF WRITE-INS</b>			
0501.			
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page			
0599. Totals (Lines 0501 through 0503 plus Line 0598) (Line 5 above)			
1401. Other income / (expense)		(4,676,015)	(10,301,748)
1402. Retroactive reinsurance gain/(loss)		403,039	3,054,609
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)		(4,272,976)	(7,247,139)
3701. Other changes in surplus		(4,302,704)	221,239
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page			
3799. Totals (Lines 3701 through 3703 plus Line 3798) (Line 37 above)		(4,302,704)	221,239

## CASH FLOW

	1	2
<b>Cash from Operations</b>	Current Year	Prior Year
1. Premiums collected net of reinsurance	347,551,587	662,323,504
2. Net investment income	64,423,506	74,399,488
3. Miscellaneous income	(43,377,151)	(7,342,681)
4. Total (Lines 1 through 3)	368,597,942	729,380,311
5. Benefit and loss related payments	674,599,580	314,923,081
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	269,201,507	266,486,539
8. Dividends paid to policyholders	1,948,045	2,910,204
9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)	(18,375,355)	11,065,862
10. Total (Lines 5 through 9)	927,373,777	595,385,686
11. Net cash from operations (Line 4 minus Line 10)	(558,775,835)	133,994,625
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	1,908,517,059	1,236,314,967
12.2 Stocks	1,478,029	973,785
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets	13,411,277	11,976,144
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(8,251)	
12.7 Miscellaneous proceeds	56,183	16,534,441
12.8 Total investment proceeds (Lines 12.1 to 12.7)	1,923,454,297	1,265,799,337
13. Cost of investments acquired (long-term only):		
13.1 Bonds	1,354,250,557	1,387,235,995
13.2 Stocks	5,987,229	5,547,757
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets	17,082,109	18,178,115
13.6 Miscellaneous applications	21,409,394	
13.7 Total investments acquired (Lines 13.1 to 13.6)	1,398,729,289	1,410,961,867
14. Net increase (decrease) in contract loans and premium notes		
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	524,725,008	(145,162,530)
<b>Cash from Financing and Miscellaneous Sources</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes		
16.2 Capital and paid in surplus, less treasury stock		
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders		
16.6 Other cash provided (applied)	100,252,877	(4,222,408)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	100,252,877	(4,222,408)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	66,202,050	(15,390,313)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	41,141,422	56,531,735
19.2 End of year (Line 18 plus Line 19.1)	107,343,472	41,141,422

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

20.0001. ....		
20.0002. ....		
20.0003. ....		

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 1- PREMIUMS EARNED**

Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire	4,871,666	8,575,793	4,113,210	9,334,249
2. Allied lines	2,403,967	3,079,761	1,859,158	3,624,570
3. Farmowners multiple peril	167,887			167,887
4. Homeowners multiple peril	21,183,837	54,408,763	27,680,462	47,912,138
5. Commercial multiple peril	3,176,223	7,777,961	3,683,114	7,271,070
6. Mortgage guaranty				
8. Ocean marine	846,596	724,423	569,877	1,001,142
9. Inland marine	18,699,799	2,378,964	1,198,988	19,879,775
10. Financial guaranty				
11.1 Medical malpractice - occurrence	(133)			(133)
11.2 Medical malpractice - claims-made				
12. Earthquake	761,929	1,001,585	605,341	1,158,173
13. Group accident and health	962			962
14. Credit accident and health (group and individual)				
15. Other accident and health	(9,679)	11,385	24	1,682
16. Workers' compensation	123,248,579	(2,497,748)	4,424,771	116,326,060
17.1 Other liability - occurrence	14,634,922	15,680,380	9,418,905	20,896,397
17.2 Other liability - claims-made	3,176,513	4,809,648	3,005,535	4,980,626
18.1 Products liability - occurrence	2,493,965	3,366,271	1,678,423	4,181,813
18.2 Products liability - claims-made	303,274	38,467	67,105	274,636
19.1, 19.2 Private passenger auto liability	33,112,423	66,493,702	33,506,914	66,099,211
19.3, 19.4 Commercial auto liability	9,593,937	10,214,552	5,545,610	14,262,879
21. Auto physical damage	(2,913,537)	47,588,445	24,144,753	20,530,155
22. Aircraft (all perils)	1,469,880	1,488,268	769,030	2,189,118
23. Fidelity	114,786	124,204	77,794	161,196
24. Surety	4,392,743	8,760,823	5,090,899	8,062,667
26. Burglary and theft	13,805	17,715	9,444	22,076
27. Boiler and machinery	42,356	129,711	54,678	117,389
28. Credit				
29. International				
30. Reinsurance-Nonproportional Assumed Property	3,980,901	374,977	439,846	3,916,032
31. Reinsurance-Nonproportional Assumed Liability	1,381,158	157,889	116,131	1,422,916
32. Reinsurance-Nonproportional Assumed Financial Lines				
33. Aggregate write-ins for other lines of business				
34. TOTALS	247,148,759	234,705,939	128,060,012	353,794,686

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

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

Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (a)	2 Amount Unearned (Running More Than One Year from Date of Policy) (a)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1. Fire	4,107,350	5,861			4,113,211
2. Allied lines	1,851,714	7,444			1,859,158
3. Farmowners multiple peril					
4. Homeowners multiple peril	27,680,462				27,680,462
5. Commercial multiple peril	2,514,522	1,168,592			3,683,114
6. Mortgage guaranty					
8. Ocean marine	427,124	142,753			569,877
9. Inland marine	1,124,490	74,498			1,198,988
10. Financial guaranty					
11.1 Medical malpractice - occurrence					
11.2 Medical malpractice - claims-made					
12. Earthquake	603,947	1,394			605,341
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health	24				24
16. Workers' compensation	19,475,325	249,227	(1,366)	(15,298,415)	4,424,771
17.1 Other liability - occurrence	10,544,666	(105,315)		(1,020,446)	9,418,905
17.2 Other liability - claims-made	1,728,055	1,277,480			3,005,535
18.1 Products liability - occurrence	2,028,083	14,700		(364,361)	1,678,422
18.2 Products liability - claims-made	67,105				67,105
19.1, 19.2 Private passenger auto liability	33,506,914				33,506,914
19.3, 19.4 Commercial auto liability	6,052,094	151,643		(658,128)	5,545,609
21. Auto physical damage	24,127,105	17,668		(19)	24,144,754
22. Aircraft (all perils)	769,030				769,030
23. Fidelity	71,798	5,995			77,793
24. Surety	4,436,656	654,243			5,090,899
26. Burglary and theft	9,327	117			9,444
27. Boiler and machinery	51,782	2,897			54,679
28. Credit					
29. International					
30. Reinsurance-Nonproportional Assumed Property	159,093	280,754			439,847
31. Reinsurance-Nonproportional Assumed Liability	116,131				116,131
32. Reinsurance-Nonproportional Assumed Financial Lines					
33. Aggregate write-ins for other lines of business					
34. TOTALS	141,452,797	3,949,951	(1,366)	(17,341,369)	128,060,013
35. Accrued retrospective premiums based on experience					17,341,370
36. Earned but unbilled premiums					1,366
37. Balance (Sum of Line 34 through 36)					145,402,749

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

(a) State here basis of computation used in each case .....



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

Line of Business	1 Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
		2 From Affiliates	3 From Non- Affiliates	4 To Affiliates	5 To Non- Affiliates	
1. Fire	653,198	4,871,666		653,198		4,871,666
2. Allied lines	783,822	2,403,967		783,822		2,403,967
3. Farmowners multiple peril		167,887				167,887
4. Homeowners multiple peril	1,012,912	21,183,837		1,012,912		21,183,837
5. Commercial multiple peril	7,189,603	3,176,223		7,189,603		3,176,223
6. Mortgage guaranty						
8. Ocean marine		846,596				846,596
9. Inland marine	10,806	18,699,799		10,806		18,699,799
10. Financial guaranty						
11.1 Medical malpractice - occurrence	(4,478)	(133)		(4,478)		(133)
11.2 Medical malpractice - claims-made						
12. Earthquake	14,558	761,929		14,558		761,929
13. Group accident and health		962				962
14. Credit accident and health (group and individual)						
15. Other accident and health		(9,679)				(9,679)
16. Workers' compensation	1,459,967,870	123,248,579		1,459,967,870		123,248,579
17.1 Other liability - occurrence	109,626,008	14,634,922		109,626,008		14,634,922
17.2 Other liability - claims-made		3,176,513				3,176,513
18.1 Products liability - occurrence	7,623,341	2,493,965		7,623,341		2,493,965
18.2 Products liability - claims-made		303,274				303,274
19.1, 19.2 Private passenger auto liability	92,300,522	33,112,423		92,300,522		33,112,423
19.3, 19.4 Commercial auto liability	24,060,199	9,593,937		24,060,199		9,593,937
21. Auto physical damage	61,853,632	(2,913,537)		61,853,632		(2,913,537)
22. Aircraft (all perils)		1,469,880				1,469,880
23. Fidelity	54,105	114,786		54,105		114,786
24. Surety	1,975	4,392,743		1,975		4,392,743
26. Burglary and theft	52,376	13,805		52,376		13,805
27. Boiler and machinery		42,356				42,356
28. Credit						
29. International						
30. Reinsurance-Nonproportional Assumed Property	X X X	3,980,901				3,980,901
31. Reinsurance-Nonproportional Assumed Liability	X X X	1,381,158				1,381,158
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X					
33. Aggregate write-ins for other lines of business						
34. TOTALS	1,765,200,449	247,148,759		1,765,200,449		247,148,759

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 [ X ] No [ ]

- If yes:
- The amount of such installment premiums \$ 1,501,704,113
  - Amount at which such installment premiums would have been reported had they been recorded on an annualized basis \$ 1,505,094,130

**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	1,448,823	7,761,264	1,448,823	7,761,264	2,074,556	5,769,072	4,066,748	43.568
2. Allied lines	93,399	4,793,916	93,399	4,793,916	1,124,878	3,726,900	2,191,894	60.473
3. Farmowners multiple peril		7,684		7,684	698	10,092	(1,710)	(1.019)
4. Homeowners multiple peril	568,726	31,848,535	568,726	31,848,535	12,684,112	19,566,190	24,966,457	52.109
5. Commercial multiple peril	9,098,451	12,330,557	9,098,451	12,330,557	7,904,103	18,687,562	1,547,098	21.277
6. Mortgage guaranty								
8. Ocean marine		1,744,762		1,744,762	1,382,558	2,365,088	762,232	76.136
9. Inland marine	11,253	13,851,772	11,253	13,851,772	3,148,384	4,487,431	12,512,725	62.942
10. Financial guaranty								
11.1 Medical malpractice - occurrence		12,540		12,540	10,304	24,827	(1,983)	1,490.977
11.2 Medical malpractice - claims - made								
12. Earthquake		(9,269)		(9,269)	7,606	(18,593)	16,930	1.462
13. Group accident and health		126,373		126,373	91,645	203,909	14,109	1,466.632
14. Credit accident and health (group and individual)								
15. Other accident and health		122,077		122,077	72,055	191,471	2,661	158.205
16. Workers' compensation	489,764,938	322,628,224	489,764,938	322,628,224	292,047,806	528,996,613	85,679,417	73.655
17.1 Other liability - occurrence	21,081,307	63,659,956	21,081,307	63,659,956	61,185,121	105,652,565	19,192,512	91.846
17.2 Other liability - claims - made	2,224,289	9,993,389	2,224,289	9,993,389	9,973,765	17,161,122	2,806,032	56.339
18.1 Products liability - occurrence	1,364,085	14,336,716	1,364,085	14,336,716	12,277,031	25,140,865	1,472,882	35.221
18.2 Products liability - claims - made		345,517		345,517	426,518	679,275	92,760	33.776
19.1, 19.2 Private passenger auto liability	89,775,959	96,070,235	89,775,959	96,070,235	53,252,257	110,654,202	38,668,290	58.500
19.3, 19.4 Commercial auto liability	8,005,237	25,609,264	8,005,237	25,609,264	20,008,776	36,213,017	9,405,023	65.941
21. Auto physical damage	34,108,683	9,508,439	34,108,683	9,508,439	(175,333)	(2,140,644)	11,473,750	55.887
22. Aircraft (all perils)		3,196,799		3,196,799	2,121,924	4,164,648	1,154,075	52.719
23. Fidelity		463,942		463,942	314,216	885,619	(107,461)	(66.665)
24. Surety		3,549,845		3,549,845	3,211,866	5,331,905	1,429,806	17.734
26. Burglary and theft	4,081	39,378	4,081	39,378	(1,041)	75,467	(37,130)	(168.192)
27. Boiler and machinery		5,364		5,364	(8,603)	10,725	(13,964)	(11.895)
28. Credit		421		421	196	842	(225)	
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X	5,128,207		5,128,207	2,575,682	7,506,467	197,422	5.041
31. Reinsurance-Nonproportional Assumed Liability	X X X	12,781,457		12,781,457	11,962,234	21,977,472	2,766,219	194.405
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X	160,223		160,223	143,396	221,349	82,270	
33. Aggregate write-ins for other lines of business								
34. TOTALS	657,549,231	640,067,587	657,549,231	640,067,587	497,816,710	917,545,458	220,338,839	62.279

**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	1,516,732	1,641,929	1,516,732	1,641,929	681,749	432,627	681,749	2,074,556	424,418
2. Allied lines	1	828,761	1	828,761	359,059	296,117	359,059	1,124,878	230,988
3. Farmowners multiple peril		698		698				698	2,662
4. Homeowners multiple peril	143,881	7,897,852	143,881	7,897,852	35,919	4,786,260	35,919	12,684,112	2,912,810
5. Commercial multiple peril	7,614,887	4,859,330	7,614,887	4,859,330	7,796,935	3,044,773	7,796,935	7,904,103	2,909,357
6. Mortgage guaranty									
8. Ocean marine		683,658		683,658		698,899		1,382,557	304,719
9. Inland marine		1,288,918		1,288,918	1,214	1,859,466	1,214	3,148,384	270,740
10. Financial guaranty									
11.1 Medical malpractice - occurrence		15,121		15,121		(4,818)		10,303	676
11.2 Medical malpractice - claims - made									
12. Earthquake		5,306		5,306	87	2,300	87	7,606	789
13. Group accident and health		36,550		36,550		55,095		(a) 91,645	7,540
14. Credit accident and health (group and individual)									
15. Other accident and health		5,268		5,268		66,786		(a) 72,054	2,778
16. Workers' compensation	1,059,801,080	162,365,404	1,059,801,080	162,365,404	1,636,042,907	129,682,402	1,636,042,907	292,047,806	37,844,500
17.1 Other liability - occurrence	166,287,591	28,743,256	166,287,591	28,743,256	158,593,195	32,441,865	158,593,195	61,185,121	24,190,853
17.2 Other liability - claims - made	5,520,602	2,473,617	5,520,602	2,473,617	561,246	7,500,148	561,246	9,973,765	3,404,555
18.1 Products liability - occurrence	4,605,991	2,860,347	4,605,991	2,860,347	10,857,261	9,416,684	10,857,261	12,277,031	7,815,476
18.2 Products liability - claims - made		16,712		16,712		409,807		426,519	190,046
19.1, 19.2 Private passenger auto liability	68,452,644	34,565,263	68,452,644	34,565,263	33,428,784	18,686,994	33,428,784	53,252,257	13,661,100
19.3, 19.4 Commercial auto liability	14,191,799	11,196,840	14,191,799	11,196,840	10,332,218	8,811,936	10,332,218	20,008,776	3,660,301
21. Auto physical damage		5,816		5,816	(168,455)	(181,149)	(168,455)	(175,333)	1,934,910
22. Aircraft (all perils)		1,586,850		1,586,850		535,075		2,121,925	329,084
23. Fidelity		67,564		67,564	2,965	246,651	2,965	314,215	101,128
24. Surety		435,068		435,068	977	2,776,798	977	3,211,866	884,425
26. Burglary and theft		527		527	13,526	(1,568)	13,526	(1,041)	40,120
27. Boiler and machinery		6,856		6,856		(15,459)		(8,603)	7,734
28. Credit						196		196	10
29. International									
30. Reinsurance-Nonproportional Assumed Property	X X X	1,577,349		1,577,349	X X X	998,333		2,575,682	45,864
31. Reinsurance-Nonproportional Assumed Liability	X X X	4,601,535		4,601,535	X X X	7,360,699		11,962,234	487,958
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X	133,719		133,719	X X X	9,677		143,396	20,372
33. Aggregate write-ins for other lines of business									
34. TOTALS	1,328,135,208	267,900,114	1,328,135,208	267,900,114	1,858,539,587	229,916,594	1,858,539,587	497,816,708	101,685,913

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

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

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

	1	2	3	4
	Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1. Claim adjustment services:				
1.1 Direct	127,175,065			127,175,065
1.2 Reinsurance assumed	26,388,827			26,388,827
1.3 Reinsurance ceded	127,175,065			127,175,065
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	26,388,827			26,388,827
2. Commission and brokerage:				
2.1 Direct, excluding contingent		23,166,731		23,166,731
2.2 Reinsurance assumed, excluding contingent		2,101,292		2,101,292
2.3 Reinsurance ceded, excluding contingent		23,166,731		23,166,731
2.4 Contingent-direct		126,850		126,850
2.5 Contingent-reinsurance assumed		3,766,993		3,766,993
2.6 Contingent-reinsurance ceded		126,850		126,850
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)		5,868,285		5,868,285
3. Allowances to manager and agents		1,428,145		1,428,145
4. Advertising	525,858	4,722,111	1,942	5,249,911
5. Boards, bureaus and associations	74,066	721,976	21	796,063
6. Surveys and underwriting reports	5,832	878,004	382	884,218
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries	16,919,693	37,865,996	294,695	55,080,384
8.2 Payroll taxes	903,067	2,800,845	13,793	3,717,705
9. Employee relations and welfare	3,299,994	10,141,394	17,995	13,459,383
10. Insurance	1,595,822	263,973	2,800	1,862,595
11. Directors' fees		6,017		6,017
12. Travel and travel items	1,050,419	2,796,240	4,881	3,851,540
13. Rent and rent items	1,122,214	3,296,021	4,120	4,422,355
14. Equipment	884,078	2,700,888	5,257	3,590,223
15. Cost or depreciation of EDP equipment and software	177,260	1,355,090	1,582	1,533,932
16. Printing and stationery	198,475	629,362	729	828,566
17. Postage, telephone and telegraph, exchange and express	681,509	2,067,512	1,413	2,750,434
18. Legal and auditing	95,907	633,387	39,385	768,679
19. Totals (Lines 3 to 18)	27,534,194	72,306,961	388,995	100,230,150
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 250,380		13,304,905		13,304,905
20.2 Insurance department licenses and fees		361,052		361,052
20.3 Gross guaranty association assessments		(2,471)		(2,471)
20.4 All other (excluding federal and foreign income and real estate)		517,332		517,332
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		14,180,818		14,180,818
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	2,207,352	5,905,150	27,525	8,140,027
25. Total expenses incurred	56,130,373	98,261,214	416,520 (a)	154,808,107
26. Less unpaid expenses-current year	101,685,915	29,203,953		130,889,868
27. Add unpaid expenses-prior year	188,083,375	57,346,541		245,429,916
28. Amounts receivable relating to uninsured plans, prior year				
29. Amounts receivable relating to uninsured plans, current year		6,324		6,324
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	142,527,833	126,410,126	416,520	269,354,479

DETAILS OF WRITE-INS				
2401. Change in unallocated expense reserves	1,046,264			1,046,264
2402. Other expenses	1,161,088	5,905,150	27,525	7,093,763
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	2,207,352	5,905,150	27,525	8,140,027

(a) Includes management fees of \$ 416,383 to affiliates and \$ 1,710,032 to non-affiliates.

**EXHIBIT OF NET INVESTMENT INCOME**

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 7,312,589	6,993,311
1.1 Bonds exempt from U.S. tax	(a) 54,849	61,890
1.2 Other bonds (unaffiliated)	(a) 48,373,838	43,811,539
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)		
2.21 Common stocks of affiliates	5,818,250	5,818,250
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 1,605,407	1,686,595
7. Derivative instruments	(f)	
8. Other invested assets	566,905	566,905
9. Aggregate write-ins for investment income	152,516	152,516
10. Total gross investment income	63,884,354	59,091,006

11. Investment expenses		(g) 416,520
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i)
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		416,520
17. Net investment income (Line 10 minus Line 16)		58,674,486

DETAILS OF WRITE-INS		
0901. Miscellaneous Income/ (Expense)	152,516	152,516
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)	152,516	152,516
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 \$ 1,041,566 accrual of discount less \$ 1,997,239 amortization of premium and less \$ 4,991,061 paid for accrued interest on purchases.
- (b) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued dividends on purchases.
- (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (d) Includes \$ 0 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 163,850 accrual of discount less \$ 3,306 amortization of premium and less \$ 87,833 paid for accrued interest on purchases.
- (f) Includes \$ 0 accrual of discount less \$ 0 amortization of premium.
- (g) Includes \$ 0 investment expenses and \$ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$ 0 interest on surplus notes and \$ 0 interest on capital notes.
- (i) Includes \$ 0 depreciation on real estate and \$ 0 depreciation on other invested assets.

**EXHIBIT OF CAPITAL GAINS (LOSSES)**

	1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. U.S. Government bonds	(763,321)		(763,321)		
1.1 Bonds exempt from U.S. tax	5,307		5,307		
1.2 Other bonds (unaffiliated)	(1,277,387)		(1,277,387)	(250,798)	
1.3 Bonds of affiliates					
2.1 Preferred stocks (unaffiliated)	7,998		7,998	2	
2.11 Preferred stocks of affiliates					
2.2 Common stocks (unaffiliated)	1,318,886		1,318,886	(3,637,713)	
2.21 Common stocks of affiliates					
3. Mortgage loans					
4. Real estate					
5. Contract loans					
6. Cash, cash equivalents and short-term investments	(8,251)		(8,251)		
7. Derivative instruments					
8. Other invested assets	7,630,956	(1,723,819)	5,907,137	3,802,109	
9. Aggregate write-ins for capital gains (losses)					
10. Total capital gains (losses)	6,914,188	(1,723,819)	5,190,369	(86,400)	

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

**EXHIBIT OF NONADMITTED ASSETS**

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks			
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA)			
6. Contract loans			
7. Other invested assets (Schedule BA)			
8. Receivables for securities			
9. Aggregate write-ins for invested assets			
10. Subtotals, cash and invested assets (Lines 1 to 9)			
11. Title plants ( for Title insurers only )			
12. Investment income due and accrued			
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	1,410,507	1,882,047	471,540
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	151	303	152
13.3 Accrued retrospective premiums	2,017,669	4,568,488	2,550,819
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers			
14.2 Funds held by or deposited with reinsured companies			
14.3 Other amounts receivable under reinsurance contracts			
15. Amounts receivable relating to uninsured plans	96,347	193,078	96,731
16.1 Current federal and foreign income tax recoverable and interest thereon			
16.2 Net deferred tax asset	25,089,992	39,247,213	14,157,221
17. Guaranty funds receivable or on deposit			
18. Electronic data processing equipment and software			
19. Furniture and equipment, including health care delivery assets			
20. Net adjustment in assets and liabilities due to foreign exchange rates			
21. Receivables from parent, subsidiaries and affiliates			
22. Health care and other amounts receivable			
23. Aggregate write-ins for other than invested assets	1,045,223	1,682,969	637,746
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	29,659,889	47,574,098	17,914,209
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	29,659,889	47,574,098	17,914,209

<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	642,247	880,262	238,015
2302. Amounts receivable under high deductible policies	402,976	802,707	399,731
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page			
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	1,045,223	1,682,969	637,746

## NOTES TO FINANCIAL STATEMENTS

### Note 1- Summary of Significant Accounting Policies

#### A. Accounting Practices

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

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

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

#### C. Accounting Policies

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

In addition, the Company uses the following accounting policies:

1. Short term investments are carried at cost, adjusted where appropriate for amortization of premium or discount, or market as specified by the Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO Manual).
2. Bonds are carried at cost, adjusted where appropriate for amortization of premium or discount, or market as specified by the SVO Manual.
3. Common stocks are carried at market value.
4. The Company does not own preferred stocks.
5. The Company does not own mortgage loans.
6. Mortgage backed/asset backed securities are stated at amortized cost or market based on guidance in the SVO Manual. Prepayment assumptions for mortgage backed/asset backed securities are updated monthly using the Bloomberg data service. The retrospective adjustment method is used to value all mortgage backed/asset backed securities.
7. The Company does not own any subsidiaries, controlled and affiliated ("SCA") entities.
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. Derivative Securities refer to Note 8.
10. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 53, *Property Casualty Contracts - Premiums*.
11. Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and follow current standards of practice. Any adjustments to the liability are reflected in the period that they are determined.
12. The Company did not change its capitalization policy in 2007.
13. The Company has no pharmaceutical rebate receivables.

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

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

### Note 3- Business Combinations and Goodwill

#### A. Statutory Purchase Method

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

#### B. Statutory Mergers

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

## NOTES TO FINANCIAL STATEMENTS

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C. Impairment Loss

Not applicable

**Note 4- Discontinued Operations**

The Company has no discontinued operations to report.

**Note 5- Investments**

A. Mortgage Loans

The Company has no mortgage loans.

B. Troubled Debt Restructuring for Creditors

Not applicable

C. Reverse Mortgages

The Company has no reverse mortgages.

D. Loan-Backed Securities

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

E. Repurchase Agreements

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

F. Real Estate

The Company does not own real estate.

G. Investments in Low-Income Housing Tax Credits

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

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

- A. The Company has no investments in joint ventures, partnerships, or limited liability companies that exceed 10% of its admitted assets.
- B. The company invests in limited partnerships that are reported in accordance with SSAP No. 48. These limited partnerships are valued by the equity method using traditional private equity valuation measures. Interim poor performance which indicates a probable inability to recover the carrying amount of the asset leads to impairment losses being recognized by management. The Company realized impairment losses of \$1,723,819 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, 2007.

**Note 8- Derivative Instruments**

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

**Note 9 - Income Taxes**

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



## NOTES TO FINANCIAL STATEMENTS

	December 31, 2007	December 31, 2006	Change
Total of gross deferred tax assets	73,943,000	106,276,000	(32,333,000)
Total of deferred tax liabilities	(22,666,000)	(21,040,000)	(1,626,000)
Net deferred tax asset	51,277,000	85,236,000	(33,959,000)
Net deferred tax asset non-admitted	(25,089,992)	(39,247,213)	14,157,221
Net admitted deferred tax asset	26,187,008	45,988,787	(19,801,779)

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

	2007	2006
Federal tax on operations	(17,572,669)	22,744,318
Net operating loss benefit	0	0
Foreign tax on operations	0	0
Income tax incurred on operations	(17,572,669)	22,744,318
Tax on capital gains	1,816,629	1,761,476
Total income tax incurred	(15,756,040)	24,505,794

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

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

	2007
Change in net deferred income tax (without unrealized gain or loss)	(33,989,240)
Tax effect of unrealized (gains) losses	30,240
Total change in net deferred income tax	(33,959,000)

- D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest, officer's life insurance, revisions to prior year estimates, and changes in deferred taxes related to statutory non-admitted assets.
- E. The amount of Federal income taxes paid and available for recoupment in the event of future losses is none from the current year and \$21,186,000 from the preceding year.

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

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

Access Insurance Services, Co.	Liberty Mutual Group Inc.
Ambco Capital Corporation	Liberty Mutual Holding Company, Inc.
America First Insurance Company	Liberty Mutual Insurance Company
America First Lloyds Insurance Company	Liberty Mutual Managed Care, Inc.
American Ambassador Casualty Company	Liberty Mutual Personal Insurance Company
American Fire & Casualty Insurance Company *	Liberty Northwest Insurance Corporation
Avomark Insurance Company *	Liberty Personal Insurance Company
Berkeley Holding Company Associates, Inc.	Liberty RE (Bermuda) Limited
Berkeley Management Corporation	Liberty Real Estate Corporation
Bridgefield Casualty Insurance Company	Liberty Sponsored Insurance (Vermont) Inc.
Bridgefield Employers Insurance Company	Liberty Surplus Insurance Corporation
Capitol Agency, Inc. (Arizona corporation)	Liberty-USA Corporation
Capitol Agency, Inc. (Ohio corporation)	LIH-Re of America Corporation
Capitol Agency, Inc. (Tennessee corporation)	LIH U.S. P&C Corporation
Cascade Disability Management, Inc.	LIIA Insurance Agency, Inc.
Colorado Casualty Insurance Company	LIU Specialty Insurance Agency, Inc.
Companies Agency Insurance Services of California	LLS Insurance Agency of Nevada, Inc.
Companies Agency of Alabama, Inc.	LM General Insurance Company
Companies Agency of Georgia, Inc.	LM Insurance Corporation
Companies Agency of Kentucky, Inc.	LM Personal Insurance Company
Companies Agency of Massachusetts, Inc.	LM Property & Casualty Insurance Company
Companies Agency of Michigan, Inc.	LMHC Massachusetts Holding, Inc.
Companies Agency of New York, Inc.	LRE Properties, Inc.
Companies Agency of Pennsylvania, Inc.	Mid-American Agency, Inc.
Companies Agency of Phoenix, Inc.	Mid-American Fire and Casualty Company
Consolidated Insurance Company	Missouri Agency, Inc.
Copley Venture Capital, Inc.	North Pacific Insurance Company
Countrywide Services Corporation	Oregon Automobile Insurance Company
Diversified Settlements, Inc.	OCASCO Budget, Inc *
Employers Insurance Company of Wausau	OCI Printing, Inc.*
Excelsior Insurance Company	Ohio Casualty Corporation *
Florida State Agency, Inc.	Ohio Casualty Insurance Company *
Globe American Casualty Company	Ohio Casualty of New Jersey, Inc *
Golden Eagle Insurance Corporation	Ohio Life Brokerage Services, Inc.*

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**NOTES TO FINANCIAL STATEMENTS**


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Gulf States AIF, Inc.	Ohio Security Insurance Company *
Hawkeye-Security Insurance Company	Peerless Indemnity Insurance Company
Helmsman Insurance Agency of Illinois, Inc.	Peerless Insurance Company
Helmsman Insurance Agency of Texas, Inc.	San Diego Insurance Company
Heritage-Summit Healthcare of Florida, Inc.	State Agency, Inc. (Indiana corporation)
Indiana Insurance Company	State Agency, Inc. (Wisconsin corporation)
LEXCO Limited	St. James Insurance Company
Liberty Assignment Corporation	Summit Consulting, Inc.
Liberty Energy Canada, Inc. *	Summit Consulting, Inc. of Louisiana
Liberty Financial Services, Inc.	Summit Holding Southeast, Inc.
Liberty Hospitality Group, Inc.	The First Liberty Insurance Corporation
Liberty Insurance Company of America	The Midwestern Indemnity Company
Liberty Insurance Corporation	The National Corporation
Liberty Insurance Holdings, Inc.	The Netherlands Insurance Company
Liberty Insurance Underwriters, Inc.	Wausau Service Corporation
Liberty Life Assurance Company of Boston	Wausau Signature Agency, Inc.
Liberty Life Holdings, Inc.	Wausau Business Insurance Company
Liberty Lloyds of Texas Insurance Company	Wausau General Insurance Company
Liberty Management Services, Inc.	Wausau Underwriters Insurance Company
Liberty Mexico Holdings, Inc.	West American Insurance Company *
Liberty Mutual Fire Insurance Company	

\* This company joined the consolidated group in 2007 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 Insurance Company ("LMIC"), a Massachusetts company. LMIC is wholly owned by Liberty Mutual Group, Inc., a Massachusetts company.
- B. Transactions between the Company and its affiliates are described in Schedule Y Part 2.
- C. Refer to Note 25.
- D. At December 31, 2007, the Company reported \$314,115 due from affiliates. In general, the terms of the inter-company arrangements require settlement at least quarterly.
- E. The Company has made no guarantee or initiated undertaking for the benefit of affiliates which result in a material contingent exposure of the Company's or affiliates' assets or liabilities.
- F. See Note 25 for information regarding the Inter-Company Reinsurance Agreement.

There is a "Service Agreement" between the Company and an affiliate, LMIC, under which LMIC provides the Company with services of personnel employed by LMIC, office space, supplies, equipment, telephone and wire services, the use of computers and similar machines to the extent necessary or appropriate. The Company also has an investment services agreement with LMIC. LMIC is reimbursed for the costs of all services which it provides under these agreements.

The Company entered into an agreement for a loan or extension of credit effective May 22, 2006; namely a revolving credit agreement under which the Company may borrow up to \$100,000,000 from LMIC. The purpose of the extension of credit is for operating liquidity to accommodate fluctuations in daily cash flow and to promote efficient management of investments. As of December 31, 2007, there have been no drawings under this agreement.

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

- G. The Company is part of a holding company structure as illustrated in Schedule Y Part 1.
- H. The Company does not own shares of an upstream company, either directly or indirectly.
- I. The Company has no investments in subsidiary, controlled or affiliated companies.
- J. Impairment of subsidiaries  
Refer to 10 I
- K. Investment in foreign insurance subsidiaries.  
Refer to 10 I
- L. Investment in downstream non-insurance holding companies.  
Refer to 10 I

**Note 11- Debt**

Not applicable

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## NOTES TO FINANCIAL STATEMENTS

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

The Company's eligible direct employees are included in the U.S. Liberty Mutual Retirement Benefit Plan, which is a defined benefit plan; the Supplemental Income at Retirement Plan, which has both a defined benefit component and a defined contribution component; and the Thrift Incentive Plan, which is a defined contribution plan. The Company's eligible direct employees are also included in the postretirement health and life insurance benefit plans. Each of these plans is sponsored by the holding company, Liberty Mutual Group Inc. ("LMGI"). Accordingly, these plans' assets and obligations are not disclosed in this note. The costs for these plans are allocated by LMGI to LMIC, pursuant to an Employee Benefit Plans Cost-Sharing Agreement, and a portion of the costs in turn are allocated to the Company through the Liberty Mutual Inter-Company Reinsurance Agreement, as described in Note 25.

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

1. Common Stock

The Company has 30,000 shares authorized, and 25,000 shares issued and outstanding as of December 31, 2007. All shares have a stated par value of \$140.

2. Preferred Stock

Not applicable

3. Dividend Restrictions

There are no dividend restrictions.

4. The maximum amount of dividends which can be paid by Illinois-domiciled insurance companies to shareholders without prior approval of the Insurance Commissioner is the greater of (a) 10% of policyholders' surplus, or (b) net income. The maximum dividend payout which may be made without prior approval in 2008 is \$54,694,837.

5. As of December 31, 2007, the Company has pre-tax restricted surplus of \$37,504,957 resulting from retroactive reinsurance contracts.

6. The Company had no advances to surplus.

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

8. The Company had changes in special surplus funds resulting from retroactive reinsurance contracts during 2007.

9. The portion of unassigned funds (surplus) represented by cumulative unrealized gains and (losses) is \$9,838,634.

10. Surplus Notes

Not applicable

11. Quasi re-organization (dollar impact)

Not applicable

12. Quasi re-organization (effective date)

Not applicable

13. The company did not pay a dividend to its parent during 2007.

### **Note 14- Contingencies**

A. Contingent Commitments

The Company has made no commitments, contingent commitments or guarantees on behalf of affiliates except as indicated in Note 10 E.

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 \$8,225,572 that is offset by future premium tax credits of \$1,168,081. 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 2007.

## NOTES TO FINANCIAL STATEMENTS

During 2007 there were no material insolvencies to report. The company continues to remit payments relating to prior year insolvencies.

C. Gain Contingencies

Not applicable

D. Clams Related to Extra Contractual Obligations and Bad Faith Losses Stemming from Lawsuits

The Company paid the following amounts in the reporting period to settle claims related extra contractual obligations or bad faith claims stemming from lawsuits.

	Direct
Claims related ECO and bad faith losses paid during the reporting period	\$ 591,250

Number of claims where amounts were paid to settle claims related extra contractual obligations or bad faith claims resulting from lawsuits during the reporting period.

(a) 0-25 Claims	(b) 26-50 Claims	(c) 51-100 Claims	(d) 101-500 Claims	(e) More than 500 Claims
X				

Indicate whether claim count information is disclosed per claim or per claimant.

( f ) Per Claim [ x ]                      ( g ) Per Claimant [ ]

E. All Other Contingencies

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

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

**Note 15- Leases**

A. 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, plant and equipment. 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 Company's minimum lease obligations under these agreements are as follows:

<u>Year(s)</u>	<u>Sale Lease-back</u>	<u>All Other Operating Lease Arrangements</u>
2008	\$1,096,024	\$3,015,279
2009	931,144	2,813,904
2010	652,136	2,072,960
2011	171,649	1,142,414
2012	-	762,548
2013 & thereafter	-	5,380,489
Total	<u>\$2,850,952</u>	<u>\$15,187,595</u>

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

Not applicable

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

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

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

A. Transfers of Receivables reported as sales:

The Company did not have any transfers of receivables reported as sales.

B. Transfers and servicing of financial assets:

The Company participates in a Securities Lending Program to generate additional income, whereby certain fixed income securities are loaned for a period of time from the Company's portfolio to qualifying third parties, via a lending agent. The Company does not participate in term loans, therefore, the company does not have contractual collateral transactions that

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## NOTES TO FINANCIAL STATEMENTS

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extend beyond one year from the reporting date. Borrowers of these securities provide collateral equal to or in excess of 102% of the market value of the loaned securities. Acceptable collateral may be in the form of cash or U.S. Government securities. The market value of the loaned securities is monitored and additional collateral is obtained if the market value of the collateral falls below 102% of the market value of the loaned securities. Additionally, the lending agent indemnifies the Company against borrower defaults. Cash collateral is carried as a liability on the balance sheet, as the Company can exercise discretion as to how the collateral is invested. The loaned securities remain a recorded asset of the Company.

At December 31, 2007 the total market value of fixed maturities on loan was \$58,841,538 with corresponding collateral value of \$62,123,850 of which \$49,562,321 represents cash collateral.

C. Wash Sales

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

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

A. Administrative Services Only (ASO) Plans

Net reimbursement for administrative expenses over actual expenses on uninsured plans and net gain was \$23,762. Claim payment volume was \$1,101,805.

B. Administrative Services Contract (ASC) Plans

Not applicable

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts

Not applicable

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

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

**Note 20- 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 2007 and \$0 in 2006.
- b) The Company reported loss recoveries from the Special Disability Trust Fund of \$436,497 in 2007 and \$1,314,603 in 2006 respectively.
- c) The amount the Company was assessed by the Special Disability Trust Fund was 2,066,976 in 2007 and \$4,840,613 in 2006, respectively.

2) Assets in the amount of \$101,628,686 and \$100,678,955 as of December 31, 2007 and 2006, respectively, were on deposit with government authorities or trustees as required by law.

D. The Company routinely assesses the collectibility of its premium receivable. Based upon Company experience, amounts in excess of non-admitted amounts are not believed to be material.

E. Business Interruption Insurance Recoveries

The Company does not purchase business interruption coverage.

F. State Transferable Tax Credits

The Company does not hold transferable state tax credits.

G. The Company does not have deposits admitted under section 6603 of the Internal Revenue Services Code.

H. Hybrid Securities

The Company does not hold hybrid securities.

I. Sub-Prime Lending

The Company does not have exposure to sub-prime mortgage related risk.

## NOTES TO FINANCIAL STATEMENTS

### Note 21- Events Subsequent

There were no events subsequent to December 31, 2007 that would require disclosure.

### Note 22- Reinsurance

- A. Excluding amounts arising pursuant to the Liberty Mutual Inter-Company Reinsurance Agreement, as described in Note 25, there are no unsecured reinsurance recoverables with an individual reinsurer that exceed 3% of the Company's policyholder's surplus.
- B. There are no reinsurance recoverables in dispute from an individual reinsurer that exceed 5% of the Company's policyholder's surplus. In addition, the aggregate reinsurance recoverables in dispute do not exceed 10% of the Company's policyholder's surplus.
- C. The following table sets forth the maximum return premium and commission equity due the reinsurer or the Company if all of the Company's assumed and ceded reinsurance were canceled as of December 31, 2007.

	Assumed Reinsurance		Ceded Reinsurance		Net Reinsurance	
	UEP	Commission Equity	UEP	Commission Equity	UEP	Commission Equity
Affiliates	\$145,402,747	\$3,034,445	\$402,662,696	\$5,313,535	\$(257,259,949)	\$(2,279,090)
All Other	0	0	0	0	0	0
Total	\$145,402,747	\$3,034,445	\$402,662,696	\$5,313,535	\$(257,259,949)	\$(2,279,090)

Direct Unearned Premium Reserve: \$402,662,696

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, 2007 are as follows:

Description	Direct	Assumed	Ceded	Net
Contingent commissions	\$0	\$3,862,838	\$0	\$3,862,838
Sliding scale adjustments	0	0	0	0
Other profit commissions	0	(5,850,000)	0	(5,850,000)
Totals	\$0	\$(1,987,162)	\$0	\$(1,987,162)

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

- D. The Company has not written off any uncollectible balances in the current year.
- E. The Company has not recorded any commutations in the current year.
- F. The Company has one assumed retroactive contract as a result of the Inter-Company Reinsurance Agreement with LMIC.

	Assumed	Ceded
a. Reserves Transferred:		
1. Initial Reserves	\$(69,326,543)	\$0
2. Adjustment – Prior Year(s)	6,288,051	0
3. Adjustment – Current Year	458,926	0
4. Total	\$(62,579,566)	\$0
b. Consideration Paid or Received:		
1. Initial Reserves	\$(32,516,130)	\$0
2. Adjustment – Prior Year(s)	(1,551,139)	0
3. Adjustment – Current Year	(30,240)	0
4. Total	\$(34,097,509)	\$0
c. Amounts Recovered / Paid - Cumulative		
1. Initial Reserves	\$(1,180,076)	\$0
2. Adjustment – Prior Year(s)	(6,742,324)	0
3. Adjustment – Current Year	(1,341,818)	0
4. Total	\$(9,264,218)	\$0
d. Special Surplus from Retroactive Reinsurance		
1. Initial Reserves	\$37,990,489	\$0
2. Adjustment – Prior Year(s)	(1,096,866)	0
3. Adjustment – Current Year	852,652	0
4. Total	37,504,957	\$0
5. Cumulative total transferred to Unassigned funds	\$241,318	
e. Other insurers included in the above transactions:		
	Assumed	Ceded
Liberty Mutual Insurance Company, 23043	\$(62,579,566)	\$0

## NOTES TO FINANCIAL STATEMENTS

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. There are no contracts recorded as deposit accounting.

### **Note 23 - Retrospectively Rated Contracts and Contracts Subject to Redetermination**

- A. Accrued retrospective premiums reported in Line 13.3 of the assets have been determined based upon loss experience on business subject to such experience rating adjustment.
- 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.
- D. Ten percent of the amount not offset by retrospective return premiums or collateral has been designated as non-admitted and charged to surplus.

Total accrued retro premium	\$17,341,370
Less: Non-admitted amount	(2,017,669)
Admitted amount	\$15,323,701

### **Note 24 - Changes in Incurred Losses and Loss Adjustment Expenses**

Reserves for incurred losses and loss adjustment expenses attributed to insured events in prior years have increased in 2007 as a result of unfavorable loss development trends in the workers compensation and asbestos and environmental lines of business, partially offset by favorable development in the personal auto and commercial multiple peril lines of business. Original estimates are revised as additional information becomes known regarding individual claims.

### **Note 25- Inter-Company Pooling Arrangements**

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

		NAIC Co. #	Pooling %	Lines of Business
Lead Company:	Liberty Mutual Insurance Company (LMIC)	23043	75.90%	All Lines
Affiliated Pool Companies:	Employers Insurance Company of Wausau (EICOW)	21458	10.00%	All Lines
	Liberty Mutual Fire Insurance Company (LMFIC)	23035	10.00%	All Lines
	Liberty Insurance Corporation (LIC)	42404	3.00%	All Lines
	Wausau Business Insurance Company (WBIC)	26069	0.40%	All Lines
	Wausau Underwriters Insurance Company (WUIC)	26042	0.40%	All Lines
	LM Insurance Corporation (LMC)	33600	0.20%	All Lines
	The First Liberty Insurance Corporation (FST)	33588	0.10%	All Lines
	Liberty Personal Insurance Company (LPIC)	11746	0.00%	All Lines
	Liberty Insurance Company of America (LICA)	10337	0.00%	All Lines
	Liberty Surplus Insurance Corporation (LSIC)	10725	0.00%	All Lines
	Wausau General Insurance Company (WGIC)	26425	0.00%	All Lines
			100.00%	
100% Quota Share Affiliated Companies:	Liberty Lloyd's of Texas Insurance Company (LLOT)	11041	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)	32352	0.00%	All Lines
	LM General Insurance Company (LMGIC)	36447	0.00%	All Lines
	LM Personal Insurance Company (LMPIC)	36439	0.00%	All Lines
	Liberty Mutual Personal Insurance Company (LMPICO)	12484	0.00%	All Lines

Under the terms of the Reinsurance Agreements, 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, each 100% Quota Share Affiliated company cedes 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.

## NOTES TO FINANCIAL STATEMENTS

- (d) The Lead Company's remaining underwriting activity, after processing all internal and external reinsurance, is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above.
- (e) There were no members that are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement and have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.
- (f) There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the Lead Company and corresponding entries on the assumed and ceded reinsurance schedules of other pooled participants.
- (g) The write-off of uncollectible reinsurance is pooled and the provision for reinsurance is recognized by the entity placing the outbound external reinsurance.
- (h) Pursuant to the approval of the appropriate state insurance departments, effective January 1, 2007, the Liberty Mutual Pool participation percentages were revised as follows:

	2007	2006
Liberty Mutual Insurance Company	75.9%	66.5%
Employers Insurance Company of Wausau	10.0%	16.0%
Liberty Insurance Corporation	3.0%	6.0%
Wausau General Insurance Company	0.0%	0.4%

### **Note 26- Structured Settlements**

- A. As a result of purchased annuities with the claimant as payee, the Company no longer carries reserves of \$32,583,658 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 \$32,583,658 as of December 31, 2007.
- 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 Insurance Company &amp; 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	\$15,709,073
Liberty Life Assurance Company of Boston Boston, Massachusetts	Yes	\$9,809,384
Nationwide Life Insurance Company Columbus, Ohio	Yes	\$4,661,533

### **Note 27 - Health Care Receivables**

Not applicable

### **Note 28 - Participating Policies**

Not applicable

### **Note 29 - Premium Deficiency Reserves**

As of December 31, 2007, the Company had no liabilities related to premium deficiency reserves. The Company considers anticipated investment income when calculating its premium deficiency reserves.

### **Note 30- High Dollar Deductible Policies**

As of December 31, 2007, the amount of reserve credit recorded for high dollar deductible policies on unpaid losses was \$144,368,630 and the amount billed and recoverable on paid claims was \$7,270,547.

### **Note 31- 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%. Asbestos structured settlements are discounted at 4.5%. The December 31, 2007, liabilities include \$107,230,483 of liabilities carried at a discounted value of \$66,287,191 representing a discount of \$40,943,292.

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

### **Note 32 - 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



## NOTES TO FINANCIAL STATEMENTS

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, WBIC, WGIC, and 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 insured's 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 the last few years the Company, as well as the industry generally, has seen decreases in the number of asbestos claims being filed. This turn to a more favorable trend is due to a number of factors. Screening activity used by some lawyers to find new plaintiffs has been as a result of questionable practices discovered in the Federal Silica Multi District Litigation. Court decisions in several key states have been favorable to defendants. More importantly, several states have enacted legislation in the past few years that contain medical criteria provisions aimed at reducing the number of lawsuits filed by unimpaired plaintiffs and providing prompt and fair compensation to those who meet the criteria.

In the third quarter of 2007, the Company completed its comprehensive biennial ground-up asbestos reserve study. The study was completed by a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel, and it included all major segments of the Company's direct, assumed, and ceded asbestos claims. The result of the study, which reflects management's best estimate of the reserve requirement, is in the table below.

### Uncertainty Regarding Reserving Methodologies

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

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

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

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

The table below summarizes reserve and loss activity for the Company's asbestos and environmental loss and loss adjustment expenses for each of the five most recent calendar years. Gross reserves for both asbestos and environmental are representative of the companies included in note 25. Net reserves for asbestos and environmental are allocated based on the Company's Inter-company Reinsurance Agreement, as discussed in Note 25.

### Asbestos:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Direct Basis</b>					
Beginning Reserves	44,371,860	47,352,872	51,073,874	59,947,504	55,492,813
Incurred losses and LAE	12,810,477	12,362,210	16,627,165	3,015,560	6,936,074
Calendar year payments	9,829,465	8,641,208	7,753,535	7,470,251	11,959,676
Ending Reserves	47,352,872	51,073,874	59,947,504	55,492,813	50,469,211

## NOTES TO FINANCIAL STATEMENTS

<b>Assumed Reinsurance Basis</b>					
Beginning Reserves	5,608,710	7,867,768	14,687,726	15,416,396	16,303,881
Incurred losses and LAE	3,457,203	7,861,205	1,633,332	1,464,329	5,749,395
Calendar year payments	1,198,145	1,041,247	904,662	576,844	805,727
Ending Reserves	7,867,768	14,687,726	15,416,396	16,303,881	21,247,549
<b>Net of Ceded Reinsurance Basis</b>					
Beginning Reserves	28,800,420	33,737,670	28,544,042	31,270,677	26,910,667
Incurred losses and LAE	9,390,090	105,958	6,581,063	366,125	2,553,787
Calendar year payments	4,452,840	5,299,586	3,854,428	4,726,135	5,544,407
Ending Reserves	33,737,670	28,544,042	31,270,677	26,910,667	23,920,047
<b>Ending Reserves for Bulk + IBNR included above (Loss &amp; LAE)</b>					
Direct Basis					26,903,027
Assumed Reinsurance Basis					17,080,021
Net of Ceded Reinsurance Basis					10,766,802
<b>Ending Reserves for LAE included above (Case, Bulk &amp; IBNR)</b>					
Direct Basis					17,409,387
Assumed Reinsurance Basis					127,244
Net of Ceded Reinsurance Basis					6,257,616
<b>Environmental:</b>					
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Direct Basis</b>					
Beginning Reserves	13,395,120	9,651,161	21,305,411	20,579,919	15,165,416
Incurred losses and LAE	(1,646,298)	13,803,703	4,756,983	1,435,522	176,436
Calendar year payments	2,097,661	2,149,453	5,482,475	6,850,025	1,815,647
Ending Reserves	9,651,161	21,305,411	20,579,919	15,165,416	13,526,205
<b>Assumed Reinsurance Basis</b>					
Beginning Reserves	3,536,010	1,677,499	2,126,549	1,569,578	1,438,414
Incurred losses and LAE	(1,689,672)	610,132	(366,908)	26,431	44,263
Calendar year payments	168,839	161,082	190,063	157,595	257,021
Ending Reserves	1,677,499	2,126,549	1,569,578	1,438,414	1,225,656
<b>Net of Ceded Reinsurance Basis</b>					
Beginning Reserves	9,193,770	7,732,140	15,801,403	12,804,644	11,860,979
Incurred losses and LAE	(240,000)	9,479,577	15,281	606,022	294,571
Calendar year payments	1,221,630	1,410,314	3,012,040	1,549,687	1,246,473
Ending Reserves	7,732,140	15,801,403	12,804,644	11,860,979	10,909,077
<b>Ending Reserves for Bulk + IBNR included above (Loss &amp; LAE)</b>					
Direct Basis					8,928,634
Assumed Reinsurance Basis					724,859
Net of Ceded Reinsurance Basis					7,344,507
<b>Ending Reserves for LAE included above (Case, Bulk &amp; IBNR)</b>					
Direct Basis					5,744,223
Assumed Reinsurance Basis					18,099
Net of Ceded Reinsurance Basis					4,007,039

**Note 33- Subscriber Savings Accounts**

The Company is not a reciprocal insurance company.

**Note 34 - Multiple Peril Crop Insurance**

Not applicable

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## NOTES TO FINANCIAL STATEMENTS

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## 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	70,237,531	6.908	70,237,531	6.908
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies	27,047,594	2.660	27,047,594	2.660
1.3 Foreign government (including Canada, excluding mortgage-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	622,427	0.061	622,427	0.061
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations	1,745,468	0.172	1,745,468	0.172
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	50,138,261	4.931	50,138,261	4.931
1.512 Issued or guaranteed by FNMA and FHLMC	229,408,043	22.563	229,408,043	22.563
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA				
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All other	104,324,891	10.261	104,324,891	10.261
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	247,730,046	24.365	247,730,046	24.365
2.2 Unaffiliated foreign securities	38,379,888	3.775	38,379,888	3.775
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	133,727,625	13.152	133,727,624	13.152
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company				
5.2 Property held for production of income (including \$ 0 of property acquired in satisfaction of debt)				
5.3 Property held for sale (including \$ 0 property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities	126,896	0.012	126,896	0.012
8. Cash, cash equivalents and short-term investments	49,079,654	4.827	49,079,654	4.827
9. Other invested assets	64,189,541	6.313	64,189,541	6.313
10. Total invested assets	1,016,757,865	100.000	1,016,757,864	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? Illinois
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [ X ]
- 2.2 If yes, date of change: 12/31/2004
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2004
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2004
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 06/29/2006
- 3.4 By what department or departments? Illinois Department of Financial and Professional Regulation Division of Insurance
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes [ ] No [ X ]
- 4.12 renewals? Yes [ ] No [ X ]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [ ] No [ X ]
- 4.22 renewals? Yes [ ] No [ X ]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [ X ]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.
- | 1<br>Name of Entity | 2<br>NAIC Company Code | 3<br>State of Domicile |
|---------------------|------------------------|------------------------|
|                     |                        |                        |
|                     |                        |                        |
|                     |                        |                        |
- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? 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                      %
- 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).
- | 1<br>Nationality | 2<br>Type of Entity |
|------------------|---------------------|
|                  |                     |
|                  |                     |
|                  |                     |
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [ ] No [ X ]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

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

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

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

10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification? Robert T. Muleski  
 175 Berkley Street, Boston, MA 02116  
 Officer of Liberty Mutual Insurance Company

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

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

0
0

11.2 If yes, provide explanation

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

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

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

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

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

13.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

Yes [X] No [ ]

- a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- c. Compliance with applicable governmental laws, rules and regulations;
- d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- e. Accountability for adherence to the code.

13.11 If the response to 13.1 is No, please explain:

13.2 Has the code of ethics for senior managers been amended? Yes [ ] No [X]

13.21 If the response to 13.2 is Yes, provide information related to amendment(s).

13.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes [ ] No [X]

13.31 If the response to 13.3 is Yes, provide the nature of any waiver(s).

### BOARD OF DIRECTORS

14. 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 [ ]

15. 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 [ ]

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

### FINANCIAL

17. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? Yes [ ] No [X]

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

- 18.11 To directors or other officers
- 18.12 To stockholders not officers
- 18.13 Trustees, supreme or grand (Fraternal only)

0
0
0

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

- 18.21 To directors or other officers
- 18.22 To stockholders not officers
- 18.23 Trustees, supreme or grand (Fraternal only)

0
0
0

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

- 19.1 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]
- 19.2 If yes, state the amount thereof at December 31 of the current year:
- |                            |  |             |
|----------------------------|--|-------------|
| 19.21 Rented from others   |  | \$ <u>0</u> |
| 19.22 Borrowed from others |  | \$ <u>0</u> |
| 19.23 Leased from others   |  | \$ <u>0</u> |
| 19.24 Other                |  | \$ <u>0</u> |
- 20.1 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]
- 20.2 If answer is yes:
- |                                                |  |             |
|------------------------------------------------|--|-------------|
| 20.21 Amount paid as losses or risk adjustment |  | \$ <u>0</u> |
| 20.22 Amount paid as expenses                  |  | \$ <u>0</u> |
| 20.23 Other amounts paid                       |  | \$ <u>0</u> |
- 21.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No [ ]
- 21.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ 0

### INVESTMENT

- 22.1 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 [ ]
- 22.2 If no, give full and complete information, relating thereto
- 23.1 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, 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 19.1). Yes [X] No [ ]
- 23.2 If yes, state the amount thereof at December 31 of the current year:
- |                                                        |  |                       |
|--------------------------------------------------------|--|-----------------------|
| 23.21 Loaned to others                                 |  | \$ <u>58,841,538</u>  |
| 23.22 Subject to repurchase agreements                 |  | \$ <u>0</u>           |
| 23.23 Subject to reverse repurchase agreements         |  | \$ <u>0</u>           |
| 23.24 Subject to dollar repurchase agreements          |  | \$ <u>0</u>           |
| 23.25 Subject to reverse dollar repurchase agreements  |  | \$ <u>0</u>           |
| 23.26 Pledged as collateral                            |  | \$ <u>0</u>           |
| 23.27 Placed under option agreements                   |  | \$ <u>0</u>           |
| 23.28 Letter stock or securities restricted as to sale |  | \$ <u>0</u>           |
| 23.29 On deposit with state or other regulatory body   |  | \$ <u>101,628,687</u> |
| 23.291 Other                                           |  | \$ <u>0</u>           |

23.3 For category (23.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

- 24.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [X]
- 24.2 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.
- 25.1 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]
- 25.2 If yes, state the amount thereof at December 31 of the current year. \$ 0

26. 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 Section 3, III Conducting Examinations, G - Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No [ ]

26.01 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

26.02 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)

- 26.03 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year? Yes [ ] No [X]

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

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

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

26.05 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

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

27.2 If yes, complete the following schedule:

1 CUSIP#	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
42982#-10-0	LMIA HIGH YIELD FUND	75,463,807
27.2999	Total	75,463,807

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

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation
LMIA HIGH YIELD	JP. MORGAN PRIME-CAPITAL FUNDS	2,660,822	12/31/2007
LMIA HIGH YIELD	ALLIED WASTE NORTH AMER	1,588,319	12/31/2007
LMIA HIGH YIELD	CHESAPEAKE ENERGY CORP	1,466,086	12/31/2007
LMIA HIGH YIELD	MULTIPLAN INC	1,435,645	12/31/2007
LMIA HIGH YIELD	WILLIAMS PARTNERS LP/WIL	1,316,991	12/31/2007
LMIA HIGH YIELD	VENTAS REALTY LP/CAP CRP	1,262,649	12/31/2007

28. 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 (+)
28.1 Bonds	864,244,313	862,458,456	(1,785,857)
28.2 Preferred stocks			
28.3 Totals	864,244,313	862,458,456	(1,785,857)

28.4 Describe the sources or methods utilized in determining the fair values: SVO, FTID CORP, BLOOMBERG, BROKER QUOTES, ANALYTICALLY DETERMINED

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

29.2 If no, list exceptions: .....

#### OTHER

30.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$ \_\_\_\_\_ 0

30.2 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
	\$
	\$
	\$



## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

31.1 Amount of payments for legal expenses, if any? \$ 0

31.2 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
	\$
	\$
	\$

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

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

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

## GENERAL INTERROGATORIES

### PART 2 - PROPERTY & CASUALTY INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force?		YES [ ] NO [X]
1.2 If yes, indicate premium earned on U. S. business only.	\$	0
1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?	\$	0
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.	\$	0
1.5 Indicate total incurred claims on all Medicare Supplement insurance.	\$	0
1.6 Individual policies:		
Most current three years:		
1.61 Total premium earned	\$	0
1.62 Total incurred claims	\$	0
1.63 Number of covered lives	\$	0
All years prior to most current three years:		
1.64 Total premium earned	\$	0
1.65 Total incurred claims	\$	0
1.66 Number of covered lives	\$	0
1.7 Group policies:		
Most current three years:		
1.71 Total premium earned	\$	0
1.72 Total incurred claims	\$	0
1.73 Number of covered lives	\$	0
All years prior to most current three years:		
1.74 Total premium earned	\$	0
1.75 Total incurred claims	\$	0
1.76 Number of covered lives	\$	0
2. Health Test:		
	1	2
	Current Year	Prior Year
2.1 Premium Numerator	\$ 2,972	\$ 4,972
2.2 Premium Denominator	\$ 354,021,399	\$ 682,284,790
2.3 Premium Ratio (2.1/2.2)	.....	.....
2.4 Reserve Numerator	\$ 174,041	\$ 428,864
2.5 Reserve Denominator	\$ 764,827,025	\$ 1,427,655,038
2.6 Reserve Ratio (2.4/2.5)	.....	.....
3.1 Does the reporting entity issue both participating and non-participating policies?		YES [X] NO [ ]
3.2 If yes, state the amount of calendar year premiums written on:		
3.21 Participating policies		\$ 162,539,200
3.22 Non-participating policies		\$ 84,609,559
4. For Mutual Reporting Entities and Reciprocal Exchange only:		
4.1 Does the reporting entity issue assessable policies?		YES [ ] NO [X]
4.2 Does the reporting entity issue non-assessable policies?		YES [ ] NO [X]
4.3 If assessable policies are issued, what is the extent of the contingent liability of the policyholders?		0 %
4.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums.		\$ 0
5. For Reciprocal Exchanges Only:		
5.1 Does the exchange appoint local agents?		YES [ ] NO [X]
5.2 If yes, is the commission paid:		
5.21 Out of Attorney's-in-fact compensation		YES [ ] NO [ ] N/A [X]
5.22 As a direct expense of the exchange		YES [ ] NO [ ] N/A [X]
5.3 What expenses of the Exchange are not paid out of the compensation of the Attorney-in-fact?		
5.4 Has any Attorney-in-fact compensation, contingent on fulfillment of certain conditions, been deferred?		YES [ ] NO [X]
5.5 If yes, give full information		

**GENERAL INTERROGATORIES**  
(Continued)

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

- 6.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit of loss: In 2007 the Company purchased a Workers Compensation Catastrophe Treaty with limits of \$400M part of \$500M xs \$700M
- 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 the Probably Maximum Loss. For property exposures, we employ RiskLink v7.0 from RMS and AIR Classic/2v8.0. For WC, Liberty Mutual utilizes RiskLink v7.0 from RMS.
- 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 2007 the Company has in force \$1.1B part of \$1.9B xs \$1.1B of traditional reinsurance. The Company also maintained \$775M of ILW triggered reinsurance covering peak zones, primarily through the issuance of Catastrophe Bonds.
- 6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? YES  NO
- 6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to uninsured catastrophic loss
- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? YES  NO
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions. 1
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? YES  NO
- 8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? YES  NO
- 8.2 If yes, give full information
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:  
 (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;  
 (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;  
 (c) Aggregate stop loss reinsurance coverage;  
 (d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;  
 (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or  
 (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. YES  NO
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:  
 (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or  
 (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract. YES  NO
- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:  
 (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;  
 (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and  
 (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:  
 (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or  
 (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? YES  NO

**GENERAL INTERROGATORIES**  
(Continued)

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.
- 9.6 The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:
- (a) The entity does not utilize reinsurance; or, YES [ ] NO [X]
- (b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or, YES [ ] NO [X]
- (c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement. YES [X] NO [ ]
10. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? YES [X] NO [ ] N/A [ ]
- 11.1 Has the reporting entity guaranteed policies issued by any other entity and now in force: YES [ ] NO [X]
- 11.2 If yes, give full information
- 12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 13.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- |                                                                         |    |            |
|-------------------------------------------------------------------------|----|------------|
| 12.11 Unpaid losses                                                     | \$ | 53,367,477 |
| 12.12 Unpaid underwriting expenses (including loss adjustment expenses) | \$ | 11,650,653 |
- 12.2 Of the amount on Line 13.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? \$ 7,012,747
- 12.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium notes or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? YES [X] NO [ ] N/A [ ]
- 12.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
- |            |          |
|------------|----------|
| 12.41 From | 8.000 %  |
| 12.42 To   | 10.000 % |
- 12.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium notes or promissory notes taken by a reporting entity, or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? YES [X] NO [ ]
- 12.6 If yes, state the amount thereof at December 31 of current year:
- |                                  |    |             |
|----------------------------------|----|-------------|
| 12.61 Letters of Credit          | \$ | 237,677,757 |
| 12.62 Collateral and other funds | \$ | 15,327,993  |
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ 9,771,892
- 13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? YES [ ] NO [X]
- 13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. 0
- 14.1 Is the company a cedant in a multiple cedant reinsurance contract? YES [X] NO [ ]
- 14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants: Premiums and recoverables were allocated pursuant to separate intercompany pooling agreements.
- 14.3 If the answer to 14.1 is yes, are the methods described in item 14.2 entirely contained in the respective multiple cedant reinsurance contracts? YES [ ] NO [X]
- 14.4 If the answer to 14.3 is no, are all the methods described in 14.2 entirely contained in written agreements? YES [X] NO [ ]
- 14.5 If the answer to 14.4 is no, please explain:
- 15.1 Has the reporting entity guaranteed any financed premium accounts? YES [ ] NO [X]
- 15.2 If yes, give full information
- 16.1 Does the reporting entity write any warranty business? YES [ ] NO [X]
- If yes, disclose the following information for each of the following types of warranty coverage:

	1	2	3	4	5
	Direct Losses Incurred	Direct Losses Unpaid	Direct Written Premium	Direct Premium Unearned	Direct Premium Earned
16.11 Home	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
16.12 Products	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
16.13 Automobile	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
16.14 Other*	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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

**GENERAL INTERROGATORIES**  
(Continued)

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

17.1 Does the reporting entity include amounts recoverable on unauthorized reinsurance in Schedule F - Part 3 that it excludes from Schedule F - Part 5. YES [ ] NO [X]  
 Incurred but not reported losses on contracts not in force prior to July 1, 1984 and not subsequently renewed are exempt from inclusion in Schedule F - Part 5. Provide the following information for this exemption:

17.11	Gross amount of unauthorized reinsurance in Schedule F - Part 3 excluded from Schedule F - Part 5	\$	<u>0</u>
17.12	Unfunded portion of Interrogatory 17.11	\$	<u>0</u>
17.13	Paid losses and loss adjustment expenses portion of Interrogatory 17.11	\$	<u>0</u>
17.14	Case reserves portion of Interrogatory 17.11	\$	<u>0</u>
17.15	Incurred but not reported portion of Interrogatory 17.11	\$	<u>0</u>
17.16	Unearned premium portion of Interrogatory 17.11	\$	<u>0</u>
17.17	Contingent commission portion of Interrogatory 17.11	\$	<u>0</u>

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

17.18	Gross amount of unauthorized reinsurance in Schedule F - Part 3 excluded from Schedule F - Part 5	\$	<u>0</u>
17.19	Unfunded portion of Interrogatory 17.18	\$	<u>0</u>
17.20	Paid losses and loss adjustment expenses portion of Interrogatory 17.18	\$	<u>0</u>
17.21	Case reserves portion of Interrogatory 17.18	\$	<u>0</u>
17.22	Incurred but not reported portion of Interrogatory 17.18	\$	<u>0</u>
17.23	Unearned premium portion of Interrogatory 17.18	\$	<u>0</u>
17.24	Contingent commission portion of Interrogatory 17.18	\$	<u>0</u>

## FIVE-YEAR HISTORICAL DATA

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

	1 2007	2 2006	3 2005	4 2004	5 2003
<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)	1,880,136,942	2,130,573,196	1,956,525,782	1,350,320,294	866,802,610
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	87,206,021	187,989,953	182,646,516	190,412,545	181,943,110
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	35,089,294	126,823,248	102,388,397	92,416,672	96,410,793
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	4,554,892	14,940,793	11,943,036	8,295,364	10,609,704
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)	5,362,059	6,882,856	4,923,151	7,257,501	13,285,164
6. Total (Line 34)	2,012,349,208	2,467,210,046	2,258,426,882	1,648,702,376	1,169,051,381
<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)	186,563,480	455,512,263	419,259,769	392,400,242	345,538,794
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	23,837,629	117,327,257	108,228,410	105,043,653	97,844,369
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	26,886,779	117,188,063	91,373,963	82,823,702	86,485,819
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	4,498,812	14,937,423	11,980,115	8,201,884	10,609,604
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)	5,362,059	6,882,856	4,923,151	7,257,501	13,285,164
12. Total (Line 34)	247,148,759	711,847,862	635,765,408	595,726,982	553,763,750
<b>Statement of Income</b> (Page 4)					
13. Net underwriting gain (loss) (Line 8)	(19,617,569)	(21,498,160)	(47,030,977)	(44,855,609)	(52,461,456)
14. Net investment gain (loss) (Line 11)	62,048,226	75,967,362	70,080,692	68,301,599	60,818,804
15. Total other income (Line 15)	(3,215,310)	(4,899,769)	(6,531,083)	(10,945,516)	(13,661,202)
16. Dividends to policyholders (Line 17)	2,093,178	3,061,656	2,166,474	2,365,950	(144,081)
17. Federal and foreign income taxes incurred (Line 19)	(17,572,669)	22,744,318	6,699,434	(163,716)	(4,057,092)
18. Net income (Line 20)	54,694,838	23,763,459	7,652,724	10,298,240	(1,102,681)
<b>Balance Sheet Lines</b> (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	1,198,834,163	1,850,482,043	1,632,838,998	1,639,778,256	1,486,134,853
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	31,850,862	49,386,366	41,960,478	40,283,378	53,124,118
20.2 Deferred and not yet due (Line 13.2)	82,514,450	165,168,951	124,186,953	114,946,699	92,411,931
20.3 Accrued retrospective premiums (Line 13.3)	15,323,701	41,748,938	42,246,042	46,009,754	47,795,657
21. Total liabilities excluding protected cell business (Page 3, Line 24)	834,837,352	1,520,802,632	1,342,042,028	1,369,541,134	1,228,346,736
22. Losses (Page 3, Line 1)	497,816,710	917,545,458	852,428,226	803,414,483	791,239,066
23. Loss adjustment expenses (Page 3, Line 3)	101,685,915	188,083,375	174,584,763	153,241,171	156,459,955
24. Unearned premiums (Page 3, Line 9)	145,402,747	281,026,096	251,958,056	242,035,169	230,115,633
25. Capital paid up (Page 3, Lines 28 & 29)	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
26. Surplus as regards policyholders (Page 3, Line 35)	363,996,810	329,679,411	290,796,970	270,237,122	257,788,117
<b>Cash Flow</b> (Page 5)					
27. Net cash from operations (Line 11)	(558,775,835)	133,994,625	96,708,741	41,862,607	68,034,102
<b>Risk-Based Capital Analysis</b>					
28. Total adjusted capital	363,996,810	329,679,411	290,796,970	270,237,122	257,788,117
29. Authorized control level risk-based capital	51,018,181	89,178,739	79,068,997	82,031,736	76,173,036
<b>Percentage Distribution of Cash, Cash Equivalents and Invested Assets</b> (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
30. Bonds (Line 1)	75.7	88.9	88.1	84.8	88.8
31. Stocks (Lines 2.1 & 2.2)	7.4	4.9	5.0	4.7	5.1
32. Mortgage loans on real estate (Lines 3.1 and 3.2)					
33. Real estate (Lines 4.1, 4.2 & 4.3)					
34. Cash, cash equivalents and short-term investments (Line 5)	10.6	2.8	4.2	7.4	3.9
35. Contract loans (Line 6)					
36. Other invested assets (Line 7)	6.3	3.4	2.6	2.3	2.1
37. Receivables for securities (Line 8)				0.8	
38. Aggregate write-ins for invested assets (Line 9)					
39. Cash, cash equivalents and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
40. Affiliated bonds, (Sch. D, Summary, Line 25, Col. 1)					
41. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)					
42. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 1)					
43. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 7)					
44. Affiliated mortgage loans on real estate					
45. All other affiliated					
46. Total of above Lines 40 to 45					
47. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 46 above divided by Page 3, Col. 1, Line 35 x 100.0)					

## FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2007	2 2006	3 2005	4 2004	5 2003
<b>Capital and Surplus Accounts</b> (Page 4)					
48. Net unrealized capital gains (losses) (Line 24)	(56,161)	4,174,688	(1,406,543)	1,701,388	8,086,932
49. Dividends to stockholders (Line 35)					
50. Change in surplus as regards policyholders for the year (Line 38)	34,317,399	38,882,441	20,559,848	12,449,005	1,950,497
<b>Gross Losses Paid</b> (Page 9, Part 2, Cols. 1 & 2)					
51. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	1,144,871,656	741,793,226	694,132,919	644,065,173	617,065,297
52. Property lines (Lines 1, 2, 9, 12, 21 & 26)	71,611,739	106,185,105	97,046,679	88,325,580	88,614,354
53. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	58,800,878	59,843,813	71,543,655	68,723,829	51,383,979
54. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	4,262,658	983,044	3,189,579	30,516,303	17,728,037
55. Nonproportional reinsurance lines (Lines 30, 31 & 32)	18,069,887	9,127,798	6,556,773	298,321	6,108,103
56. Total (Line 34)	1,297,616,818	917,932,986	872,469,605	831,929,206	780,899,770
<b>Net Losses Paid</b> (Page 9, Part 2, Col. 4)					
57. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	532,655,841	224,536,447	224,223,614	243,645,095	204,213,717
58. Property lines (Lines 1, 2, 9, 12, 21 & 26)	35,945,500	67,758,626	55,175,076	46,561,485	45,737,902
59. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	49,133,701	50,008,222	57,878,854	53,636,174	35,653,573
60. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	4,262,658	983,044	3,189,579	30,516,303	17,728,037
61. Nonproportional reinsurance lines (Lines 30, 31 & 32)	18,069,887	9,127,798	6,556,773	298,321	6,108,103
62. Total (Line 34)	640,067,587	352,414,137	347,023,896	374,657,378	309,441,332
<b>Operating Percentages</b> (Page 4) (Item divided by Page 4, Line 1) x 100.0					
63. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
64. Losses incurred (Line 2)	61.9	61.1	63.8	66.5	66.4
65. Loss expenses incurred (Line 3)	15.9	15.3	18.8	16.3	19.1
66. Other underwriting expenses incurred (Line 4)	27.8	26.8	24.9	24.9	24.4
67. Net underwriting gain (loss) (Line 8)	(5.5)	(3.2)	(7.6)	(7.7)	(10.0)
<b>Other Percentages</b>					
68. 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)	41.1	26.4	25.4	26.2	25.7
69. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	77.8	76.4	82.6	82.8	85.5
70. 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)	67.9	215.9	218.6	220.4	214.8
<b>One Year Loss Development (000 omitted)</b>					
71. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)	9,377	29,652	30,695	20,648	44,030
72. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 71 above divided by Page 4, Line 21, Col. 1 x 100.0)	2.8	10.2	11.4	8.0	17.2
<b>Two Year Loss Development (000 omitted)</b>					
73. 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)	33,855	80,758	80,229	98,952	92,439
74. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 73 above divided by Page 4, Line 21, Col. 2 x 100.0)	11.6	29.9	31.1	38.7	37.3

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

Description		1	2	3	4
		Book/Adjusted Carrying Value	Fair Value	Actual Cost	Par Value of Bonds
<b>BONDS</b> Governments (Including all obligations guaranteed by governments)	1. United States .....	147,423,384	150,648,545	150,216,034	139,509,742
	2. Canada .....				
	3. Other Countries .....				
	4. Totals	147,423,384	150,648,545	150,216,034	139,509,742
States, Territories and Possessions (Direct and guaranteed)	5. United States .....	622,428	622,368	665,651	610,000
	6. Canada .....				
	7. Other Countries .....				
	8. Totals	622,428	622,368	665,651	610,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States .....				
	10. Canada .....				
	11. Other Countries .....				
	12. Totals				
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States .....	231,153,513	231,367,087	231,042,256	231,810,962
	14. Canada .....				
	15. Other Countries .....				
	16. Totals	231,153,513	231,367,087	231,042,256	231,810,962
Public Utilities (unaffiliated)	17. United States .....	30,187,971	29,511,311	30,436,606	29,950,000
	18. Canada .....				
	19. Other Countries .....				
	20. Totals	30,187,971	29,511,311	30,436,606	29,950,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States .....	321,866,965	317,120,639	323,169,411	319,761,366
	22. Canada .....				
	23. Other Countries .....	38,379,888	38,578,342	38,430,233	38,609,003
	24. Totals	360,246,853	355,698,981	361,599,644	358,370,369
Parent, Subsidiaries and Affiliates	25. Totals				
	<b>26. Total Bonds</b>	769,634,149	767,848,292	773,960,191	760,251,073
<b>PREFERRED STOCKS</b> Public Utilities (unaffiliated)	27. United States .....				
	28. Canada .....				
	29. Other Countries .....				
	30. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	31. United States .....				
	32. Canada .....				
	33. Other Countries .....				
	34. Totals				
Industrial and Miscellaneous (unaffiliated)	35. United States .....			1	
	36. Canada .....				
	37. Other Countries .....				
	38. Totals			1	
Parent, Subsidiaries and Affiliates	39. Totals				
	<b>40. Total Preferred Stocks</b>			1	
<b>COMMON STOCKS</b> Public Utilities (unaffiliated)	41. United States .....				
	42. Canada .....				
	43. Other Countries .....				
	44. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	45. United States .....				
	46. Canada .....				
	47. Other Countries .....				
	48. Totals				
Industrial and Miscellaneous (unaffiliated)	49. United States .....	75,463,807	75,463,807	76,611,055	
	50. Canada .....				
	51. Other Countries .....				
	52. Totals	75,463,807	75,463,807	76,611,055	
Parent, Subsidiaries and Affiliates	53. Totals				
	<b>54. Total Common Stocks</b>	75,463,807	75,463,807	76,611,055	
	55. Total Stocks	75,463,807	75,463,807	76,611,056	
	56. Total Bonds and Stocks	845,097,956	843,312,099	850,571,247	

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

1. Book/adjusted carrying value of bonds and stocks, prior year .....	1,400,407,961	7. Amortization of premium .....	1,997,239
2. Cost of bonds and stocks acquired, Column 7, Part 3 .....	1,360,237,786	8. Foreign Exchange Adjustment:	
3. Accrual of discount .....	1,041,565	8.1 Column 15, Part 1 .....	
4. Increase (decrease) by adjustment:		8.2 Column 19, Part 2, Section 1 .....	
4.1 Columns 12 - 14, Part 1 .....	(250,798)	8.3 Column 16, Part 2, Section 2 .....	
4.2 Column 15 - 17, Part 2, Section 1 .....		8.4 Column 15, Part 4 .....	
4.3 Column 15, Part 2, Section 2 .....	(3,637,714)		
4.4 Column 11 - 13, Part 4 .....	(3,888,512)	9. Book/adjusted carrying value at end of current period .....	845,097,956
5. Total gain (loss), Column 19, Part 4 .....	(708,517)	10. Total valuation allowance .....	
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4 .....	1,909,995,088	11. Subtotal (Lines 9 plus 10) .....	845,097,956
		12. Total nonadmitted amounts .....	
		13. Statement value of bonds and stocks, current period .....	845,097,956



**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	25,739	9,545	6,558	2,340	1,222	1	246	21,633	X X X
2. 1998	267,566	32,236	235,330	220,701	27,926	18,213	1,709	23,203	232	7,484	232,250	X X X
3. 1999	265,623	38,211	227,412	222,131	31,436	19,044	2,445	23,582	375	7,377	230,501	X X X
4. 2000	280,124	45,273	234,851	220,155	38,283	18,098	2,641	22,820	304	5,723	219,845	X X X
5. 2001	290,926	46,845	244,081	215,714	48,072	16,515	2,549	21,734	252	6,850	203,090	X X X
6. 2002	332,170	62,753	269,417	202,993	40,138	14,710	2,022	24,582	200	10,625	199,925	X X X
7. 2003	369,908	84,020	285,888	180,904	37,322	13,599	1,243	26,008	197	10,898	181,749	X X X
8. 2004	384,800	93,788	291,012	169,670	43,055	11,215	1,968	25,644	1,210	10,303	160,296	X X X
9. 2005	396,298	85,510	310,788	187,737	53,111	8,807	1,758	25,462	1,438	9,619	165,699	X X X
10. 2006	431,290	90,149	341,141	134,569	22,641	5,836	524	25,512	1,839	8,917	140,913	X X X
11. 2007	453,767	99,746	354,021	101,094	25,495	2,705	361	21,031	2,162	6,198	96,812	X X X
12. Totals	X X X	X X X	X X X	1,881,407	377,024	135,300	19,560	240,800	8,210	84,240	1,852,713	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	144,624	42,191	72,364	43,696	7,892	5,968	29,549	11,842	2,092		1,399	152,824	X X X
2. 1998	11,546	1,825	4,256	2,587	343	77	1,421	167	475		116	13,385	X X X
3. 1999	12,371	3,065	3,943	2,711	268	44	1,104	415	476		139	11,927	X X X
4. 2000	12,353	4,062	6,245	4,182	359	123	1,140	416	541		298	11,855	X X X
5. 2001	15,138	7,023	7,347	4,930	440	190	1,960	731	521		392	12,532	X X X
6. 2002	14,186	8,035	11,848	8,729	857	474	2,657	745	684		462	12,249	X X X
7. 2003	16,619	6,143	21,611	9,180	642	129	4,787	1,088	885		506	28,004	X X X
8. 2004	20,699	5,505	28,712	9,693	799	156	6,463	1,101	2,507	3	699	42,722	X X X
9. 2005	31,087	9,936	38,396	13,045	1,026	191	8,682	1,463	1,998	541	1,072	56,013	X X X
10. 2006	39,243	8,516	62,689	18,346	1,348	143	14,989	2,116	3,862		1,846	93,010	X X X
11. 2007	55,275	8,939	111,458	21,852	1,285	119	19,501	2,536	10,912		6,108	164,985	X X X
12. Totals	373,141	105,240	368,869	138,951	15,259	7,614	92,253	22,620	24,953	544	13,037	599,506	X X X

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred / Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1. Prior	X X X	X X X	X X X	X X X	X X X	X X X			X X X	131,101	21,723
2. 1998	280,158	34,523	245,635	104,706	107,095	104,379			3.000	11,390	1,995
3. 1999	282,919	40,491	242,428	106,511	105,967	106,603			3.000	10,538	1,389
4. 2000	281,711	50,011	231,700	100,567	110,465	98,658			3.000	10,354	1,501
5. 2001	279,369	63,747	215,622	96,028	136,081	88,340			3.000	10,532	2,000
6. 2002	272,517	60,343	212,174	82,041	96,160	78,753			3.000	9,270	2,979
7. 2003	265,055	55,302	209,753	71,654	65,820	73,369			3.000	22,907	5,097
8. 2004	265,709	62,691	203,018	69,051	66,843	69,763			3.000	34,213	8,509
9. 2005	303,195	81,483	221,712	76,507	95,291	71,339			3.000	46,502	9,511
10. 2006	288,048	54,125	233,923	66,788	60,039	68,571			3.000	75,070	17,940
11. 2007	323,261	61,464	261,797	71,239	61,621	73,950			3.000	135,942	29,043
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	497,819	101,687

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
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	One Year	Two Year
1. Prior	382,100	372,578	369,938	392,284	406,451	421,387	444,197	459,968	469,353	484,016	14,663	24,048
2. 1998	193,915	200,664	205,566	212,024	214,239	215,885	218,350	220,604	223,635	224,542	907	3,938
3. 1999	X X X	190,853	196,823	204,269	209,529	213,321	215,010	218,636	219,724	220,661	937	2,025
4. 2000	X X X	X X X	183,573	192,049	193,292	199,804	205,154	206,783	207,896	209,804	1,908	3,021
5. 2001	X X X	X X X	X X X	189,125	184,258	187,525	184,822	190,802	192,901	194,346	1,445	3,544
6. 2002	X X X	X X X	X X X	X X X	187,591	177,073	177,301	183,104	186,590	187,878	1,288	4,774
7. 2003	X X X	X X X	X X X	X X X	X X X	196,098	176,582	171,311	181,283	183,913	2,630	12,602
8. 2004	X X X	X X X	X X X	X X X	X X X	X X X	196,887	182,444	177,300	178,112	812	(4,332)
9. 2005	X X X	X X X	X X X	X X X	X X X	X X X	X X X	214,657	204,452	198,891	(5,561)	(15,766)
10. 2006	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	218,834	209,181	(9,653)	X X X
11. 2007	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	234,914	X X X	X X X
12. Totals											9,377	33,855

**SCHEDULE P-PART 3-SUMMARY**

Years in Which Losses Were Incurred	Cumulative Paid Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										11 Number of Claims Closed With Loss Payment	12 Number of Claims Closed Without Loss Payment
	1	2	3	4	5	6	7	8	9	10		
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		
1. Prior	000	71,940	125,758	159,203	195,391	221,576	248,407	270,452	290,090	310,502	X X X	X X X
2. 1998	77,835	124,912	152,782	173,386	185,238	193,323	199,562	203,772	206,793	209,279	X X X	X X X
3. 1999	X X X	77,332	122,919	151,552	171,911	185,632	195,328	201,220	205,053	207,294	X X X	X X X
4. 2000	X X X	X X X	81,107	127,330	151,497	168,192	183,384	189,653	194,136	197,329	X X X	X X X
5. 2001	X X X	X X X	X X X	85,410	128,832	150,371	163,258	172,671	177,644	181,608	X X X	X X X
6. 2002	X X X	X X X	X X X	X X X	80,378	123,166	148,121	160,499	170,839	175,543	X X X	X X X
7. 2003	X X X	X X X	X X X	X X X	X X X	74,165	113,338	132,612	146,563	155,938	X X X	X X X
8. 2004	X X X	X X X	X X X	X X X	X X X	X X X	67,873	104,355	121,844	135,862	X X X	X X X
9. 2005	X X X	X X X	X X X	X X X	X X X	X X X	X X X	78,917	120,746	141,675	X X X	X X X
10. 2006	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	75,725	117,240	X X X	X X X
11. 2007	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	77,943	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
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. Prior	150,873	97,302	79,532	62,909	44,100	39,474	34,130	43,522	45,125	48,828
2. 1998	62,810	28,176	16,127	9,591	7,046	3,266	3,342	2,777	3,996	3,881
3. 1999	X X X	62,018	29,441	14,700	8,966	5,198	4,063	3,675	2,731	2,842
4. 2000	X X X	X X X	50,819	19,461	8,578	5,874	4,709	3,386	2,773	3,147
5. 2001	X X X	X X X	X X X	52,930	21,642	12,950	6,635	5,365	4,311	3,805
6. 2002	X X X	X X X	X X X	X X X	56,620	22,360	10,090	7,609	5,870	5,205
7. 2003	X X X	X X X	X X X	X X X	X X X	81,221	33,387	15,268	17,581	16,370
8. 2004	X X X	X X X	X X X	X X X	X X X	X X X	89,643	50,017	33,346	25,818
9. 2005	X X X	X X X	X X X	X X X	X X X	X X X	X X X	97,539	53,124	34,686
10. 2006	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	101,230	59,334
11. 2007	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	109,038

**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						
2. Alaska	AK	YES	6,532,479	6,378,982	1	1,085,012	3,097,035	11,733,705	
3. Arizona	AZ	YES	17,096,094	16,181,452	13,625	2,514,621	9,499,134	26,753,235	2,451
4. Arkansas	AR	YES	10,844,897	9,820,773	1,222	3,175,831	5,019,409	27,349,002	1,098
5. California	CA	YES	110,274,301	99,142,690	106,241	33,830,381	82,787,505	333,115,905	
6. Colorado	CO	YES	36,141,709	34,469,659	87,219	17,137,341	20,581,158	55,542,958	5,632
7. Connecticut	CT	YES	36,171,885	33,272,606	10,503	16,226,890	21,278,977	69,437,343	31,164
8. Delaware	DE	YES	15,323,394	15,463,907	(1,939)	5,176,568	7,700,051	16,781,282	22,696
9. Dist. Columbia	DC	YES	2,028,508	2,102,491	(6,712)	2,012,895	1,407,977	9,272,502	3,724
10. Florida	FL	YES	88,563,403	74,991,678	343,622	35,786,607	73,310,339	216,897,865	132,434
11. Georgia	GA	YES	57,097,922	54,251,622	96,343	24,318,606	36,512,132	71,946,331	126,876
12. Hawaii	HI	YES	4,260,064	4,398,665	194	1,188,846	1,399,309	5,439,356	13,126
13. Idaho	ID	YES	2,895,634	2,787,311	1,700	1,034,516	677,574	3,697,315	2,274
14. Illinois	IL	YES	141,372,266	134,920,049	29,043	50,476,028	130,088,571	215,288,645	8,790
15. Indiana	IN	YES	43,277,003	44,136,668	1,028	17,361,350	21,511,185	54,917,932	5,671
16. Iowa	IA	YES	14,569,762	13,770,680	2,031	4,512,363	8,499,247	22,344,933	3,603
17. Kansas	KS	YES	16,967,396	15,773,457	22,575	9,166,694	8,320,592	35,775,058	3,860
18. Kentucky	KY	YES	8,129,305	8,864,431	8,769	10,409,317	2,200,735	51,903,075	5,853
19. Louisiana	LA	YES	30,713,308	28,548,410	10,367	8,811,078	31,738,906	66,839,452	10,530
20. Maine	ME	YES	6,686,788	7,723,442	(1,885)	4,276,234	9,557,360	18,608,573	17,843
21. Maryland	MD	YES	22,425,127	23,128,846	49,684	10,933,092	14,919,808	40,122,536	40,748
22. Massachusetts	MA	YES	52,635,836	47,388,139	20,733	18,219,299	40,920,359	112,705,570	4,224
23. Michigan	MI	YES	37,913,435	37,473,286	163,692	11,279,201	25,076,383	53,650,963	67
24. Minnesota	MN	YES	18,699,851	17,270,518	16,204	6,164,545	10,192,168	36,032,125	3,722
25. Mississippi	MS	YES	10,208,373	10,552,928	3,443	2,701,558	5,014,412	15,462,067	2,038
26. Missouri	MO	YES	25,797,772	24,173,637	(10,386)	12,793,189	15,490,765	50,249,617	3,122
27. Montana	MT	YES	6,404,835	5,826,656	728	1,464,974	3,172,381	5,948,451	5,658
28. Nebraska	NE	YES	13,129,138	13,024,285	14,124	7,826,407	15,358,302	31,153,041	2,087
29. Nevada	NV	YES	7,998,824	8,346,736	100	3,056,738	2,328,832	11,510,352	9,359
30. New Hampshire	NH	YES	9,822,707	9,651,981	160,130	6,245,963	(3,933,351)	51,021,905	20,081
31. New Jersey	NJ	YES	168,947,310	194,856,965	108,477	88,946,322	96,524,737	290,719,350	149,600
32. New Mexico	NM	YES	5,798,995	5,924,714	125	1,730,167	3,422,844	13,304,316	2,372
33. New York	NY	YES	243,978,484	253,278,232	426,776	64,166,342	157,472,429	378,161,209	217,366
34. No. Carolina	NC	YES	50,983,284	50,312,634	11,314	19,123,850	30,248,178	66,622,110	3
35. No. Dakota	ND	YES	393,952	394,844		14,518	22,611	60,120	266
36. Ohio	OH	YES	19,464,760	18,273,522	60	2,929,882	7,300,474	41,943,772	26,533
37. Oklahoma	OK	YES	17,939,451	14,694,784	532	3,086,175	6,677,885	22,968,545	6,270
38. Oregon	OR	YES	30,269,584	31,566,776	1,764	13,397,975	15,059,944	34,065,817	5,278
39. Pennsylvania	PA	YES	91,689,489	87,549,605	428,378	36,216,110	69,854,646	146,422,579	71,030
40. Rhode Island	RI	YES	6,663,113	5,895,354	23	3,613,349	4,082,303	11,982,754	13,529
41. So. Carolina	SC	YES	25,911,902	25,413,177	(65,218)	6,697,692	11,293,987	29,652,467	26,490
42. So. Dakota	SD	YES	1,295,435	1,251,139	(200)	178,406	468,239	2,938,054	105
43. Tennessee	TN	YES	24,907,540	23,708,349	1,165	5,539,261	13,125,885	29,882,118	9,366
44. Texas	TX	YES	89,164,891	86,837,304	20,704	23,546,984	62,061,151	205,245,868	28
45. Utah	UT	YES	14,467,687	13,760,718	312	3,697,236	9,246,232	15,581,884	3,096
46. Vermont	VT	YES	6,276,375	6,016,178	16,658	1,832,965	2,694,323	7,304,688	4,438
47. Virginia	VA	YES	39,744,330	39,507,019	(10,068)	13,379,511	21,130,453	45,091,837	68,508
48. Washington	WA	YES	9,279,855	9,074,564	19	4,412,733	7,573,217	13,516,508	19,458
49. West Virginia	WV	YES	3,037,757	2,906,037		822,131	1,791,904	2,786,259	6,626
50. Wisconsin	WI	YES	45,250,342	49,065,699	1,188,374	28,434,941	33,611,994	70,384,935	2,974
51. Wyoming	WY	YES	1,021,940	1,028,887	4	76,632	106,743	366,202	312
52. American Samoa	AS	NO							
53. Guam	GU	YES	69,714	63,977			12,523	42,173	
54. Puerto Rico	PR	YES	61,988	63,429			5,389	28,406	
55. U.S. Virgin Islands	VI	NO	(9)	(8)		4,576	4,812	4,456	
56. Northern Mariana Islands	MP	YES							
57. Canada	CN	NO							
58. Aggregate other alien	OT	X X X	1,266,680	920,567	223	681,633	391,493	2,910,741	
59. Totals	(a)	54	1,765,200,451	1,739,933,749	3,274,429	657,549,232	1,172,604,662	3,186,674,795	1,130,299

DETAILS OF WRITE-INS									
5801. Other alien	X X X		1,266,680	920,567	223	681,633	391,493	2,910,741	
5802.	X X X								
5803.	X X X								
5898. Summary of remaining write-ins for Line 58 from overflow page	X X X								
5899. Totals (Lines 5801 through 5803 + 5898) (Line 58 above)	X X X		1,266,680	920,567	223	681,633	391,493	2,910,741	

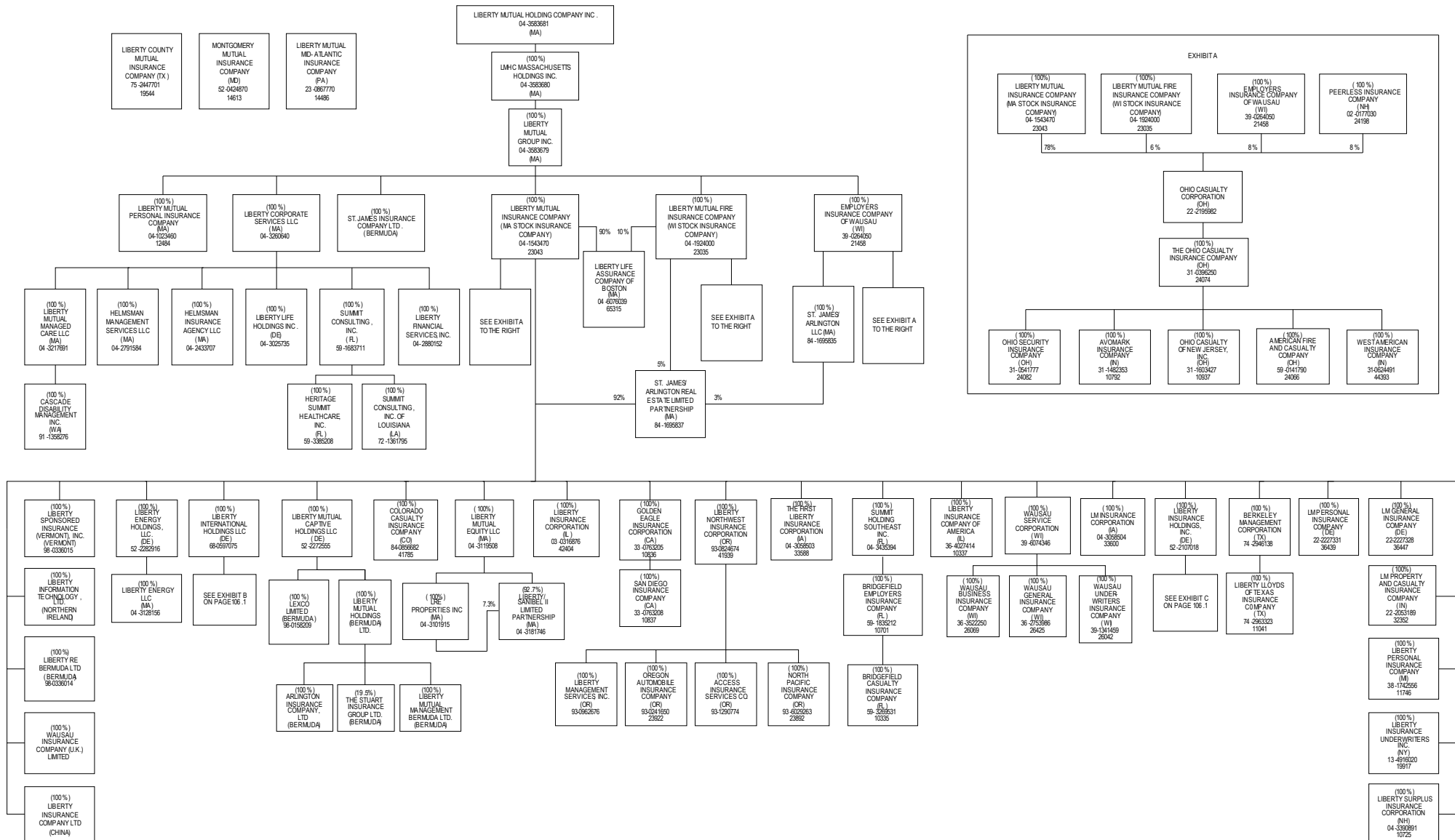
**Explanation of basis of allocation of premiums by states, etc.**

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

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

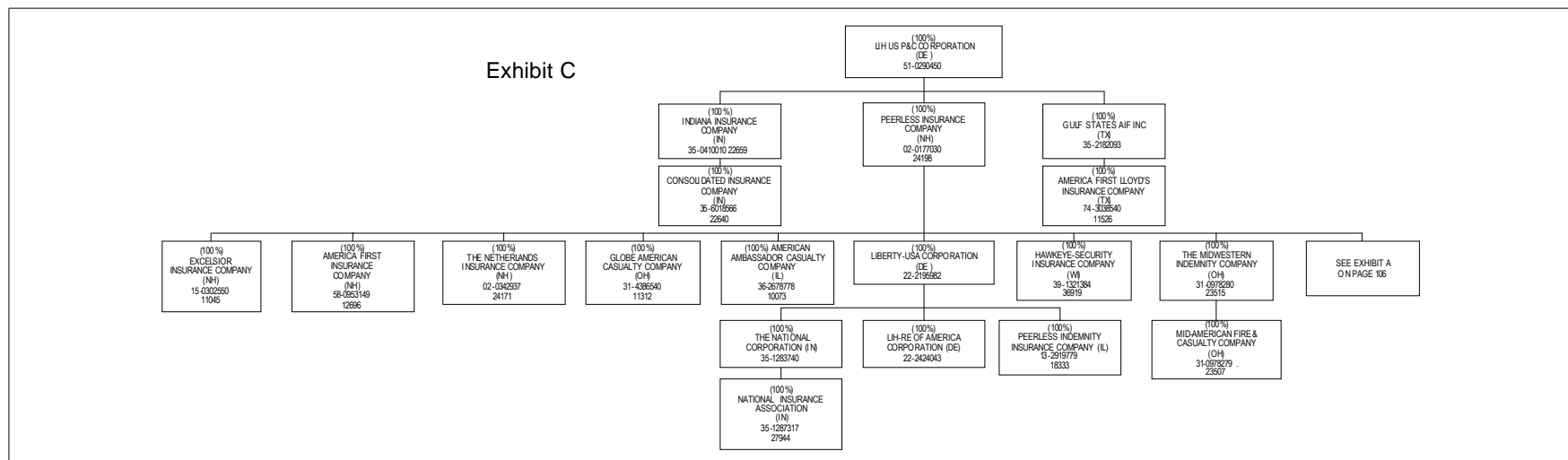
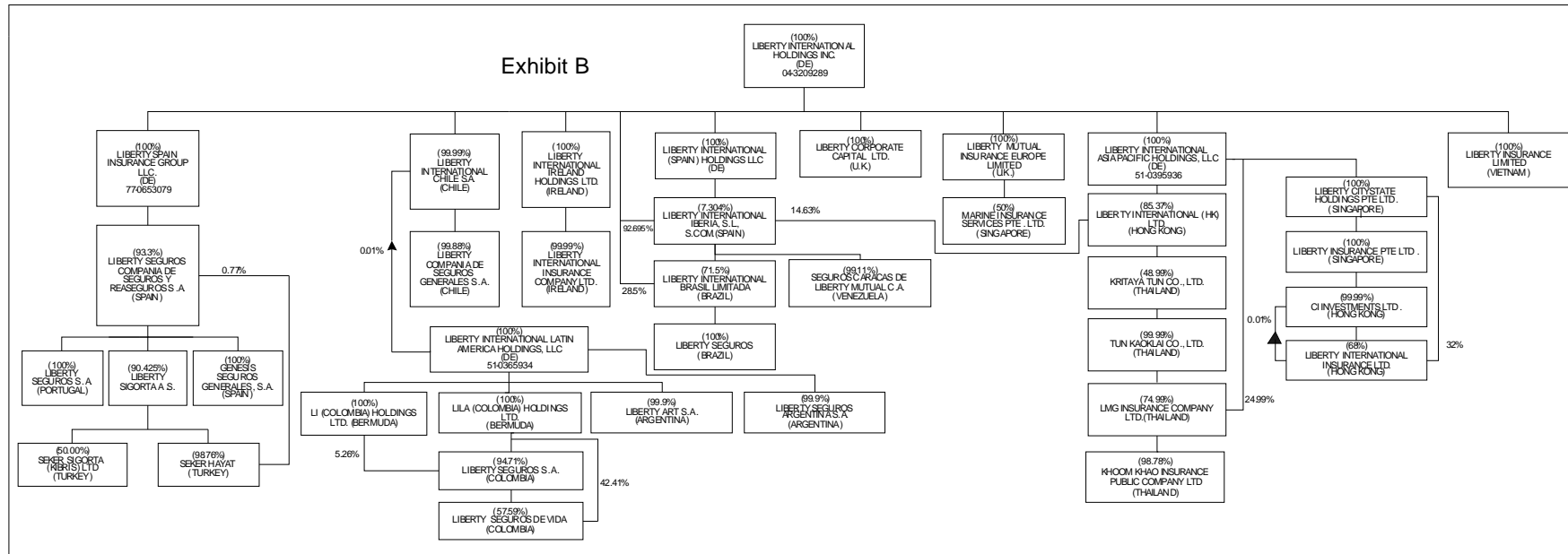
# SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

## PART 1 - ORGANIZATIONAL CHART



## SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

### PART 1 - ORGANIZATIONAL CHART



**OVERFLOW PAGE FOR WRITE-INS**

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**OVERFLOW PAGE FOR WRITE-INS**

**Page 2 - Continuation  
ASSETS**

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

**REMAINING WRITE-INS AGGREGATED AT LINE 09 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 receivable under high deductible policies	7,270,547	402,976	6,867,571	14,859,360
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)	7,270,547	402,976	6,867,571	14,859,360

**OVERFLOW PAGE FOR WRITE-INS**

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

	1 Current Year	2 Prior Year
<b>REMAINING WRITE-INS AGGREGATED AT LINE 23 FOR LIABILITIES</b>		
2304. Collateral held for securities loaned	49,562,322	24,919,696
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 3, Line 2398)	49,562,322	24,919,696
<b>REMAINING WRITE-INS AGGREGATED AT LINE 27 FOR SPECIAL SURPLUS FUNDS</b>		
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)		
<b>REMAINING WRITE-INS AGGREGATED AT LINE 30 FOR OTHER THAN SPECIAL SURPLUS FUNDS</b>		
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)		



# ALPHABETICAL INDEX TO PROPERTY AND CASUALTY ANNUAL STATEMENT

Assets	2	Schedule DB - Part D - Section 3	E21
Cash Flow	5	Schedule DB - Part D - Verification Between Years	31
Exhibit of Capital Gains (Losses)	12	Schedule DB - Part E - Section 1	E22
Exhibit of Net Investment Income	12	Schedule DB - Part E - Verification	31
Exhibit of Nonadmitted Assets	13	Schedule DB - Part F - Section 1	32
Exhibit of Premiums and Losses (State Page)	20	Schedule DB - Part F - Section 2	33
Five-Year Historical Data	18	Schedule E - Part 1 - Cash	E23
General Interrogatories	16	Schedule E - Part 2 - Cash Equivalents	E24
Jurat Page	1	Schedule E - Part 3 - Special Deposits	E25
Liabilities, Surplus and Other Funds	3	Schedule F - Part 1	34
Notes To Financial Statements	14	Schedule F - Part 2	35
Overflow Page For Write-ins	109	Schedule F - Part 3	36
Schedule A - Part 1	E01	Schedule F - Part 4	37
Schedule A - Part 2	E02	Schedule F - Part 5	38
Schedule A - Part 3	E03	Schedule F - Part 6	39
Schedule A - Verification Between Years	21	Schedule F - Part 7	40
Schedule B - Part 1	E04	Schedule F - Part 8	41
Schedule B - Part 2	E05	Schedule H - Accident and Health Exhibit - Part 1	42
Schedule B - Verification Between Years	21	Schedule H - Part 5 - Health Claims	44
Schedule BA - Part 1	E06	Schedule H - Parts - 2, 3, and 4	43
Schedule BA - Part 2	E07	Schedule P - Part 1 - Analysis of Losses and Loss Expenses	45
Schedule BA - Verification Between Years	21	Schedule P - Part 1A - Homeowners/Farmowners	47
Schedule D - Part 1	E08	Schedule P - Part 1B - Private Passenger Auto Liability/Medical	48
Schedule D - Part 1A - Section 1	23	Schedule P - Part 1C - Commercial Auto/Truck Liability/Medical	49
Schedule D - Part 1A - Section 2	26	Schedule P - Part 1D - Workers' Compensation	50
Schedule D - Part 2 - Section 1	E09	Schedule P - Part 1E - Commercial Multiple Peril	51
Schedule D - Part 2 - Section 2	E10	Schedule P - Part 1F - Section 1 - Medical Malpractice - Occurrence	52
Schedule D - Part 3	E11	Schedule P - Part 1F - Section 2 - Medical Malpractice - Claims-Made	53
Schedule D - Part 4	E12	Schedule P - Part 1G - Spec. Liab. (Ocean, Marine, Aircr.(A.P.), Boiler & Mach.)	54
Schedule D - Part 5	E13	Schedule P - Part 1H - Section 1 - Other Liability - Occurrence	55
Schedule D - Part 6 - Section 1	E14	Schedule P - Part 1H - Section 2 - Other Liability - Claims-Made	56
Schedule D - Part 6 - Section 2	E14	Schedule P - Part 1I - Spec. Prop. (Fire, A.L., Inld. Ma., Earth., Burg. & Thft.)	57
Schedule D - Summary By Country	22	Schedule P - Part 1J - Auto Physical Damage	58
Schedule D - Verification Between Years	22	Schedule P - Part 1K - Fidelity/Surety	59
Schedule DA - Part 1	E15	Schedule P - Part 1L - Other (Including Credit, Accident and Health)	60
Schedule DA - Part 2 - Verification Between Years	29	Schedule P - Part 1M - International	61
Schedule DB - Part A - Section 1	E16	Schedule P - Part 1N - Reinsurance	62
Schedule DB - Part A - Section 2	E16	Schedule P - Part 1O - Reinsurance	63
Schedule DB - Part A - Section 3	E17	Schedule P - Part 1P - Reinsurance	64
Schedule DB - Part A - Verification Between Years	30	Schedule P - Part 1R - Section 1 - Products Liability - Occurrence	65
Schedule DB - Part B - Section 1	E17	Schedule P - Part 1R - Section 2 - Products Liability - Claims-Made	66
Schedule DB - Part B - Section 2	E18	Schedule P - Part 1S - Financial Guaranty/Mortgage Guaranty	67
Schedule DB - Part B - Section 3	E18	Schedule P - Part 2A - Homeowners/Farmowners	68
Schedule DB - Part B - Verification Between Years	30	Schedule P - Part 2B - Private Passenger Auto Liability/Medical	68
Schedule DB - Part C - Section 1	E19	Schedule P - Part 2C - Commercial Auto/Truck Liability/Medical	68
Schedule DB - Part C - Section 2	E19	Schedule P - Part 2D - Workers' Compensation	68
Schedule DB - Part C - Section 3	E20	Schedule P - Part 2E - Commercial Multiple Peril	68
Schedule DB - Part C - Verification Between Years	31	Schedule P - Part 2F - Section 1 - Medical Malpractice - Occurrence	69
Schedule DB - Part D - Section 1	E20	Schedule P - Part 2F - Section 2 - Medical Malpractice - Claims-Made	69
Schedule DB - Part D - Section 2	E21	Schedule P - Part 2G - Spec. Liab. (Ocean, Marine, Aircr.(A.P.), Boiler & Mach.)	69

## ALPHABETICAL INDEX (Continued)

Schedule P - Part 2H - Section 1 - Other Liability - Occurrence	69	Schedule P - Part 4O - Reinsurance	81
Schedule P - Part 2H - Section 2 - Other Liability - Claims-Made	69	Schedule P - Part 4P - Reinsurance	81
Schedule P - Part 2I - Spec. Prop. (Fire, A.L., Inld. Ma., Earth., Burg. & Thft.)	70	Schedule P - Part 4R - Section 1 - Products Liability - Occurrence	82
Schedule P - Part 2J - Auto Physical Damage	70	Schedule P - Part 4R - Section 2 - Products Liability - Claims-Made	82
Schedule P - Part 2K - Fidelity, Surety	70	Schedule P - Part 4S - Financial Guaranty/Mortgage Guaranty	82
Schedule P - Part 2L - Other (Including Credit, Accident and Health)	70	Schedule P - Part 5A - Homeowners/Farmowners	83
Schedule P - Part 2M - International	70	Schedule P - Part 5B - Private Passenger Auto Liability/Medical	84
Schedule P - Part 2N - Reinsurance	71	Schedule P - Part 5C - Commercial Auto/Truck Liability/Medical	85
Schedule P - Part 2O - Reinsurance	71	Schedule P - Part 5D - Workers' Compensation	86
Schedule P - Part 2P - Reinsurance	71	Schedule P - Part 5E - Commercial Multiple Peril	87
Schedule P - Part 2R - Section 1 - Products Liability - Occurrence	72	Schedule P - Part 5F - Medical Malpractice - Claims-Made	89
Schedule P - Part 2R - Section 2 - Products Liability - Claims-Made	72	Schedule P - Part 5F - Medical Malpractice - Occurrence	88
Schedule P - Part 2S - Financial Guaranty/Mortgage Guaranty	72	Schedule P - Part 5H - Other Liability - Claims-Made	91
Schedule P - Part 3A - Homeowners/Farmowners	73	Schedule P - Part 5H - Other Liability - Occurrence	90
Schedule P - Part 3B - Private Passenger Auto Liability/Medical	73	Schedule P - Part 5R - Products Liability - Claims-Made	93
Schedule P - Part 3C - Commercial Auto/Truck Liability/Medical	73	Schedule P - Part 5R - Products Liability - Occurrence	92
Schedule P - Part 3D - Workers' Compensation	73	Schedule P - Part 6C - Commercial Auto/Truck Liability/Medical	94
Schedule P - Part 3E - Commercial Multiple Peril	73	Schedule P - Part 6D - Workers' Compensation	94
Schedule P - Part 3F - Section 1 - Medical Malpractice - Occurrence	74	Schedule P - Part 6E - Commercial Multiple Peril	95
Schedule P - Part 3F - Section 2 - Medical Malpractice - Claims-Made	74	Schedule P - Part 6H - Other Liability - Claims-Made	96
Schedule P - Part 3G - Spec. Liab. (Ocean, Marine, Aircr.(A.P.), Boiler & Mach.)	74	Schedule P - Part 6H - Other Liability - Occurrence	95
Schedule P - Part 3H - Section 1 - Other Liability - Occurrence	74	Schedule P - Part 6M - International	96
Schedule P - Part 3H - Section 2 - Other Liability - Claims-Made	74	Schedule P - Part 6N - Reinsurance	97
Schedule P - Part 3I - Spec. Prop. (Fire, A.L., Inld. Ma., Earth., Burg. & Thft.)	75	Schedule P - Part 6O - Reinsurance	97
Schedule P - Part 3J - Auto Physical Damage	75	Schedule P - Part 6R - Products Liability - Claims-Made	98
Schedule P - Part 3K - Fidelity/Surety	75	Schedule P - Part 6R - Products Liability - Occurrence	98
Schedule P - Part 3L - Other (Including Credit, Accident and Health)	75	Schedule P - Part 7A - Primary Loss Sensitive Contracts	99
Schedule P - Part 3M - International	75	Schedule P - Part 7B - Reinsurance Loss Sensitive Contracts	101
Schedule P - Part 3N - Reinsurance	76	Schedule P - Parts 2, 3 and 4 - Summary	46
Schedule P - Part 3O - Reinsurance	76	Schedule P Interrogatories	103
Schedule P - Part 3P - Reinsurance	76	Schedule T - Exhibit of Premiums Written	104
Schedule P - Part 3R - Section 1 - Products Liability - Occurrence	77	Schedule T - Part 2 - Interstate Compact	105
Schedule P - Part 3R - Section 2 - Products Liability - Claims-Made	77	Schedule Y - Info. Concerning Activities of Insurer Mmbrs. of a Holding Co. Grp.	106
Schedule P - Part 3S - Financial Guaranty/Mortgage Guaranty	77	Schedule Y - Part 2 - Summary of Insurer's Transactions With Any Affiliates	107
Schedule P - Part 4A - Homeowners/Farmowners	78	Statement of Income	4
Schedule P - Part 4B - Private Passenger Auto Liability/Medical	78	Summary Investment Schedule	15
Schedule P - Part 4C - Commercial Auto/Truck Liability/Medical	78	Underwriting and Investment Exhibit Part 1	6
Schedule P - Part 4D - Workers' Compensation	78	Underwriting and Investment Exhibit Part 1A	7
Schedule P - Part 4E - Commercial Multiple Peril	78	Underwriting and Investment Exhibit Part 1B	8
Schedule P - Part 4F - Section 1 - Medical Malpractice - Occurrence	79	Underwriting and Investment Exhibit Part 2	9
Schedule P - Part 4F - Section 2 - Medical Malpractice - Claims-Made	79	Underwriting and Investment Exhibit Part 2A	10
Schedule P - Part 4G - Spec. Liab. (Ocean, Marine, Aircr.(A.P.), Boiler & Mach.)	79	Underwriting and Investment Exhibit Part 3	11
Schedule P - Part 4H - Section 1 - Other Liability - Occurrence	79		
Schedule P - Part 4H - Section 2 - Other Liability - Claims-Made	79		
Schedule P - Part 4I - Spec. Prop. (Fire, A.L., Inld. Ma., Earth., Burg. & Thft.)	80		
Schedule P - Part 4J - Auto Physical Damage	80		
Schedule P - Part 4K - Fidelity/Surety	80		
Schedule P - Part 4L - Other (Including Credit, Accident and Health)	80		
Schedule P - Part 4M - International	80		
Schedule P - Part 4N - Reinsurance	81		