

**ANNUAL STATEMENT**

OF THE

**PEERLESS INDEMNITY INSURANCE COMPANY**

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of **LISLE**

in the state of **ILLINOIS**

TO THE

**Insurance Department**

OF THE

STATE OF

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

PROPERTY AND CASUALTY

**2007**



18333200720100100

**ANNUAL STATEMENT**  
**For the Year Ended December 31, 2007**  
 OF THE CONDITION AND AFFAIRS OF THE  
**Peerless Indemnity Insurance Company**

**NAIC Group Code** 0111 0111 **NAIC Company Code** 18333 **Employer's ID Number** 13-2919779  
(Current Period) (Prior Period)

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

**Country of Domicile** United States of America

**Incorporated/Organized:** April 30, 2002 **Commenced Business:** August 10, 2002

**Statutory Home Office:** 3333 Warrenville Road Lisle, IL 60532  
(Street and Number) (City, State and Zip Code)

**Main Administrative Office:** 3333 Warrenville Road Lisle, IL 60532 630-505-1442  
(Street and Number) (City, State and Zip Code) (Area Code)(Telephone Number)

**Mail Address:** 175 Berkeley Street Boston, MA 02116  
(Street and Number) (City, State and Zip Code)

**Primary Location of Books and Records:** 175 Berkeley Street Boston, MA 02116 617-357-9500  
(Street and Number) (City, State and Zip Code) (Area Code)(Telephone Number)

**Internet Website Address:** www.LibertyMutualAgencyMarkets.com

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

**OFFICERS**  
**Chairman of the Board**  
 Gary Richard Gregg

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

**Vice-Presidents**

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

**DIRECTORS OR TRUSTEES**

<u>James Francis Dore</u>	<u>John Derek Doyle</u>	<u>Joseph Anthony Gilles</u>	<u>Scott Rhodes Goodby</u>
<u>Gary Richard Gregg</u>	<u>Christopher Charles Mansfield</u>	<u>Mary Ann Thaman #</u>	<u>Robert James Brautigam</u>
<u>Mark Ardon Butler</u>			

State of Massachusetts  
 County of Suffolk ss

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

_____ (Signature) <u>Gary Richard Gregg</u> (Printed Name) 1. President and Chief Executive Officer (Title)	_____ (Signature) <u>Edmund Campion Kenealy</u> (Printed Name) 2. Secretary (Title)	_____ (Signature) <u>James Francis Dore</u> (Printed Name) 3. Treasurer and Chief Financial Officer (Title)
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Subscribed and sworn to before me this  
31st 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)	166,149,399		166,149,399	142,712,059
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks	276,703		276,703	268,643
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 (\$ 2,399,844 , Schedule E-Part 1), cash equivalents (\$ 7,239,717 Schedule E-Part 2) and short-term investments (\$ 3,657,048 , Schedule DA)	13,296,609		13,296,609	47,682,167
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)	10,000,000		10,000,000	10,040,253
8. Receivables for securities	18,315		18,315	874
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	189,741,026		189,741,026	200,703,996
11. Title plants less \$ 0 charged off (for Title insurers only)				
12. Investment income due and accrued	1,787,881		1,787,881	1,615,900
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	547,371	22,618	524,753	724,773
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 87,807 earned but unbilled premiums)	3,453,100	9,897	3,443,203	18,243,506
13.3 Accrued retrospective premiums	33,109	4,224	28,885	34,466
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers				12,277,585
14.2 Funds held by or deposited with reinsured companies				
14.3 Other amounts receivable under reinsurance contracts				
15. Amounts receivable relating to uninsured plans				
16.1 Current federal and foreign income tax recoverable and interest thereon				7,298,675
16.2 Net deferred tax asset	1,563,000	913,346	649,654	922,000
17. Guaranty funds receivable or on deposit	13,494		13,494	16,526
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	152		152	4,066,406
22. Health care (\$ 0 ) and other amounts receivable				
23. Aggregate write-ins for other than invested assets	78,483	4,090	74,393	247,446
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	197,217,616	954,175	196,263,441	246,151,279
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	197,217,616	954,175	196,263,441	246,151,279

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	6,469	4,090	2,379	208,106
2302. Equities and deposits in pools and associations	72,014		72,014	39,340
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	78,483	4,090	74,393	247,446

<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	9,508,103	8,804,204
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	493,801	12,729,830
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	2,175,926	2,020,098
4. Commissions payable, contingent commissions and other similar charges	350,755	324,094
5. Other expenses (excluding taxes, licenses and fees)	343,206	250,568
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	213,676	172,124
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))	1,567,918	
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 \$ 53,951,813 and including warranty reserves of \$ 0 )	5,076,012	4,743,232
10. Advance premium	23,721	19,093
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders	2,146	4,448
12. Ceded reinsurance premiums payable (net of ceding commissions)		15,073,276
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)		
14. Amounts withheld or retained by company for account of others	5,807	18,678
15. Remittances and items not allocated		
16. Provision for reinsurance (Schedule F, Part 7)		
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding		163
19. Payable to parent, subsidiaries and affiliates	180,774	4,704,688
20. Payable for securities		
21. Liability for amounts held under uninsured plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	9,425,955	29,166,718
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	29,367,800	78,031,214
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	29,367,800	78,031,214
27. Aggregate write-ins for special surplus funds		
28. Common capital stock	3,500,000	3,500,000
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes		
32. Gross paid in and contributed surplus	150,454,419	150,454,419
33. Unassigned funds (surplus)	12,941,222	14,165,646
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)	166,895,641	168,120,065
36. TOTALS (Page 2, Line 26, Col. 3)	196,263,441	246,151,279

<b>DETAILS OF WRITE-INS</b>		
2301. Other liabilities	84,953	158,829
2302. Collateral on securities loaned	9,341,002	29,007,889
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page		
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	9,425,955	29,166,718
2701.		
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page		
2799. Totals (Lines 2701 through 2703 plus 2798) (Line 27 above)		
3001.		
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page		
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)		

<b>STATEMENT OF INCOME</b>		1	2
		Current Year	Prior Year
<b>UNDERWRITING INCOME</b>			
1. Premiums earned (Part 1, Line 34, Column 4)		10,801,577	10,281,615
DEDUCTIONS			
2. Losses incurred (Part 2, Line 34, Column 7)		5,546,783	5,581,236
3. Loss expenses incurred (Part 3, Line 25, Column 1)		1,224,243	1,228,345
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)		3,848,214	3,440,720
5. Aggregate write-ins for underwriting deductions			
6. Total underwriting deductions (Lines 2 through 5)		10,619,240	10,250,301
7. Net income of protected cells			
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)		182,337	31,314
<b>INVESTMENT INCOME</b>			
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)		8,528,365	18,556,628
10. Net realized capital gains (losses) less capital gains tax of \$ 15,876 (Exhibit of Capital Gains (Losses))		29,484	(119,731,833)
11. Net investment gain (loss) (Lines 9 + 10)		8,557,849	(101,175,205)
<b>OTHER INCOME</b>			
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 186 amount charged off \$ 22,285 )		(22,099)	(15,350)
13. Finance and service charges not included in premiums		14,555	14,295
14. Aggregate write-ins for miscellaneous income		29,307	19,511
15. Total other income (Lines 12 through 14)		21,763	18,456
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)		8,761,949	(101,125,435)
17. Dividends to policyholders		25,996	29,064
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)		8,735,953	(101,154,499)
19. Federal and foreign income taxes incurred		9,664,734	(2,143,853)
20. Net income (Line 18 minus Line 19) (to Line 22)		(928,781)	(99,010,646)
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)		168,120,065	576,357,976
22. Net income (from Line 20)		(928,781)	(99,010,646)
23. Net transfers (to) from Protected Cell accounts			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ (4,668)		(8,670)	127,436,206
25. Change in net unrealized foreign exchange capital gain (loss)			
26. Change in net deferred income tax		636,332	(3,970,841)
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)		(923,305)	3,239,547
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)			
29. Change in surplus notes			
30. Surplus (contributed to) withdrawn from protected cells			
31. Cumulative effect of changes in accounting principles			
32. Capital changes:			
32.1 Paid in			
32.2 Transferred from surplus (Stock Dividend)			
32.3 Transferred to surplus			
33. Surplus adjustments:			
33.1 Paid in			
33.2 Transferred to capital (Stock Dividend)			
33.3 Transferred from capital			
34. Net remittances from or (to) Home Office			
35. Dividends to stockholders			(435,939,572)
36. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)			
37. Aggregate write-ins for gains and losses in surplus			7,395
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)		(1,224,424)	(408,237,911)
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)		166,895,641	168,120,065

<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)		29,307	19,511
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page			
1499. Totals (Lines 1401 through 1403 plus Line 1498) (Line 14 above)		29,307	19,511
3701. Other changes in surplus			7,395
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page			
3799. Totals (Lines 3701 through 3703 plus Line 3798) (Line 37 above)			7,395

## CASH FLOW

	1	2
	Current Year	Prior Year
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance	11,063,254	7,914,613
2. Net investment income	8,363,130	20,067,126
3. Miscellaneous income	159,648	319,479
4. Total (Lines 1 through 3)	19,586,032	28,301,218
5. Benefit and loss related payments	4,801,491	1,126,241
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	4,755,777	4,044,579
8. Dividends paid to policyholders	28,298	24,616
9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)	814,017	(28,174,809)
10. Total (Lines 5 through 9)	10,399,583	(22,979,373)
11. Net cash from operations (Line 4 minus Line 10)	9,186,449	51,280,591
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	36,438,801	249,413,504
12.2 Stocks		218,033,677
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets		1,190,882
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments		(5,279)
12.7 Miscellaneous proceeds		912
12.8 Total investment proceeds (Lines 12.1 to 12.7)	36,438,801	468,633,696
13. Cost of investments acquired (long-term only):		
13.1 Bonds	59,797,273	110,511,176
13.2 Stocks	21,399	2,369,645
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets		
13.6 Miscellaneous applications	17,441	2,426
13.7 Total investments acquired (Lines 13.1 to 13.6)	59,836,113	112,883,247
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)	(23,397,312)	355,750,449
<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		435,939,571
16.6 Other cash provided (applied)	(20,174,695)	52,442,221
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(20,174,695)	(383,497,350)
<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)	(34,385,558)	23,533,690
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	47,682,167	24,148,477
19.2 End of year (Line 18 plus Line 19.1)	13,296,609	47,682,167

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	84,301	53,226	52,570	84,957
2. Allied lines	91,080	45,927	46,551	90,456
3. Farmowners multiple peril	110,487	48,568	56,397	102,658
4. Homeowners multiple peril	887,536	428,600	486,519	829,617
5. Commercial multiple peril	3,405,870	1,571,072	1,625,464	3,351,478
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine	348,213	139,414	148,817	338,810
10. Financial guaranty				
11.1 Medical malpractice - occurrence	(20)		(12)	(8)
11.2 Medical malpractice - claims-made				
12. Earthquake	42,421	19,611	21,278	40,754
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health				
16. Workers' compensation	2,236,536	580,700	652,099	2,165,137
17.1 Other liability - occurrence	617,390	278,460	294,879	600,971
17.2 Other liability - claims-made				
18.1 Products liability - occurrence	16,607	7,145	8,357	15,395
18.2 Products liability - claims-made				
19.1, 19.2 Private passenger auto liability	861,801	344,449	417,197	789,053
19.3, 19.4 Commercial auto liability	1,389,006	663,675	664,350	1,388,331
21. Auto physical damage	1,044,732	459,388	508,676	995,444
22. Aircraft (all perils)				
23. Fidelity	346	495	391	450
24. Surety	3,051	3,134	1,735	4,450
26. Burglary and theft	1,336	605	608	1,333
27. Boiler and machinery	2,518	1,523	1,750	2,291
28. Credit				
29. International				
30. Reinsurance-Nonproportional Assumed Property				
31. Reinsurance-Nonproportional Assumed Liability				
32. Reinsurance-Nonproportional Assumed Financial Lines				
33. Aggregate write-ins for other lines of business				
34. TOTALS	11,143,211	4,645,992	4,987,626	10,801,577

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	52,570				52,570
2. Allied lines	46,551				46,551
3. Farmowners multiple peril	56,397				56,397
4. Homeowners multiple peril	486,519				486,519
5. Commercial multiple peril	1,648,225		(22,930)	169	1,625,464
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	148,817				148,817
10. Financial guaranty					
11.1 Medical malpractice - occurrence	(12)				(12)
11.2 Medical malpractice - claims-made					
12. Earthquake	21,278				21,278
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	701,614		(48,939)	(576)	652,099
17.1 Other liability - occurrence	310,987		(15,938)	(169)	294,880
17.2 Other liability - claims-made					
18.1 Products liability - occurrence	8,357				8,357
18.2 Products liability - claims-made					
19.1, 19.2 Private passenger auto liability	417,197				417,197
19.3, 19.4 Commercial auto liability	664,350				664,350
21. Auto physical damage	508,676				508,676
22. Aircraft (all perils)					
23. Fidelity	3	388			391
24. Surety	1,364	371			1,735
26. Burglary and theft	608				608
27. Boiler and machinery	1,750				1,750
28. Credit					
29. International					
30. Reinsurance-Nonproportional Assumed Property					
31. Reinsurance-Nonproportional Assumed Liability					
32. Reinsurance-Nonproportional Assumed Financial Lines					
33. Aggregate write-ins for other lines of business					
34. TOTALS	5,075,251	759	(87,807)	(576)	4,987,627
35. Accrued retrospective premiums based on experience					576
36. Earned but unbilled premiums					87,807
37. Balance (Sum of Line 34 through 36)					5,076,010

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	427,546	(727,592)		(384,348)		84,302
2. Allied lines	712,820	(613,618)		8,122		91,080
3. Farmowners multiple peril		110,487				110,487
4. Homeowners multiple peril	7,617,125	(11,799,777)		(5,070,188)		887,536
5. Commercial multiple peril	40,499,842	(19,483,118)		17,610,854		3,405,870
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	358,711	(346,463)		(335,965)		348,213
10. Financial guaranty						
11.1 Medical malpractice - occurrence		(20)				(20)
11.2 Medical malpractice - claims-made						
12. Earthquake	299,002	(780,069)		(523,488)		42,421
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	3,226,208	(14,516,264)		(13,526,592)		2,236,536
17.1 Other liability - occurrence	1,605,969	(6,491,769)		(5,503,190)		617,390
17.2 Other liability - claims-made						
18.1 Products liability - occurrence	108,671	(47,296)		44,769		16,606
18.2 Products liability - claims-made						
19.1, 19.2 Private passenger auto liability	12,756,920	(15,448,598)		(3,553,479)		861,801
19.3, 19.4 Commercial auto liability	14,968,080	(6,034,505)		7,544,570		1,389,005
21. Auto physical damage	13,106,836	(11,293,723)		768,380		1,044,733
22. Aircraft (all perils)						
23. Fidelity		346				346
24. Surety		3,051				3,051
26. Burglary and theft	7,148	(4,410)		1,402		1,336
27. Boiler and machinery	1,480	2,518		1,480		2,518
28. Credit						
29. International						
30. Reinsurance-Nonproportional Assumed Property	X X X					
31. Reinsurance-Nonproportional Assumed Liability	X X X					
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X					
33. Aggregate write-ins for other lines of business						
34. TOTALS	95,696,358	(87,470,820)		(2,917,673)		11,143,211

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

(a) Does the company's direct premiums written include premiums recorded on an installment basis? Yes [ ] No [X]  
 If yes: 1. The amount of such installment premiums \$ 0  
 2. Amount at which such installment premiums would have been reported had they been recorded on an annualized basis \$ 0

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

Line of Business	Losses Paid Less Salvage				5 Net Losses Unpaid Current Year (Part 2A, Col. 8)	6 Net Losses Unpaid Prior Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)				
1. Fire	302,497	3,564,738	3,810,946	56,289	20,641	20,616	56,314	66.285
2. Allied lines	351,582	106,699	425,253	33,028	13,632	11,435	35,225	38.942
3. Farmowners multiple peril		56,286		56,286	27,132	21,622	61,796	60.196
4. Homeowners multiple peril	2,725,350	4,566,039	6,872,503	418,886	185,265	184,282	419,869	50.610
5. Commercial multiple peril	10,808,168	38,283,066	47,710,737	1,380,497	2,470,063	2,274,704	1,575,856	47.020
6. Mortgage guaranty								
8. Ocean marine		22		22		61	(39)	
9. Inland marine	273,054	268,940	442,505	99,489	28,588	33,463	94,614	27.925
10. Financial guaranty								
11.1 Medical malpractice - occurrence								
11.2 Medical malpractice - claims - made								
12. Earthquake		21		21	5	17	9	0.022
13. Group accident and health								
14. Credit accident and health (group and individual)								
15. Other accident and health								
16. Workers' compensation	1,373,432	33,352,985	33,718,057	1,008,360	3,853,348	3,517,519	1,344,189	62.083
17.1 Other liability - occurrence	62,174	21,390,536	21,322,676	130,034	880,819	685,025	325,828	54.217
17.2 Other liability - claims - made								
18.1 Products liability - occurrence		70,726	69,342	1,384	21,967	15,531	7,820	50.796
18.2 Products liability - claims - made								
19.1, 19.2 Private passenger auto liability	2,811,648	46,638,561	48,920,225	529,984	659,527	725,831	463,680	58.764
19.3, 19.4 Commercial auto liability	1,688,141	11,943,807	13,021,888	610,060	1,245,406	1,262,826	592,640	42.687
21. Auto physical damage	5,573,252	1,459,660	6,515,897	517,015	42,546	25,924	533,637	53.608
22. Aircraft (all perils)								
23. Fidelity		(16)		(16)	253	674	(437)	(97.111)
24. Surety		604,413	603,378	1,035	56,469	7,538	49,966	1,122.831
26. Burglary and theft		92	22	70	35	73	32	2.401
27. Boiler and machinery					116	481	(365)	(15.932)
28. Credit								
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X							
31. Reinsurance-Nonproportional Assumed Liability	X X X	440		440	2,291	16,582	(13,851)	
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X							
33. Aggregate write-ins for other lines of business								
34. TOTALS	25,969,298	162,307,015	183,433,429	4,842,884	9,508,103	8,804,204	5,546,783	51.352

**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	143,940	19,023	143,940	19,023	7,692	1,618	7,692	20,641	4,113
2. Allied lines	110,186	13,082	110,186	13,082	13,636	550	13,636	13,632	1,910
3. Farmowners multiple peril		23,529		23,529		3,603		27,132	4,477
4. Homeowners multiple peril	769,427	149,027	769,427	149,027	289,335	36,238	289,335	185,265	39,147
5. Commercial multiple peril	9,847,601	1,469,419	9,847,601	1,469,419	3,434,374	1,000,644	3,434,374	2,470,063	1,127,967
6. Mortgage guaranty									
8. Ocean marine									
9. Inland marine	38,699	23,577	38,699	23,577	4,232	5,011	4,232	28,588	5,558
10. Financial guaranty									
11.1 Medical malpractice - occurrence									
11.2 Medical malpractice - claims - made									
12. Earthquake		5		5				5	49
13. Group accident and health								(a)	
14. Credit accident and health (group and individual)								(a)	
15. Other accident and health								(a)	
16. Workers' compensation	2,296,494	2,268,388	2,296,494	2,268,388	1,954,384	1,584,960	1,954,384	3,853,348	482,841
17.1 Other liability - occurrence	363,111	296,157	363,111	296,157	1,030,291	584,662	1,030,291	880,819	151,549
17.2 Other liability - claims - made									
18.1 Products liability - occurrence	2,000	8,052	2,000	8,052	104,378	13,916	104,378	21,968	4,275
18.2 Products liability - claims - made									
19.1, 19.2 Private passenger auto liability	3,420,856	487,418	3,420,856	487,418	1,750,410	172,109	1,750,410	659,527	127,715
19.3, 19.4 Commercial auto liability	1,767,274	731,792	1,767,274	731,792	3,376,583	513,614	3,376,583	1,245,406	219,772
21. Auto physical damage	496,832	42,489	496,832	42,489		57		42,546	6,532
22. Aircraft (all perils)									
23. Fidelity						253		253	20
24. Surety		51,128		51,128		5,341		56,469	(96)
26. Burglary and theft		2		2	134	33	134	35	46
27. Boiler and machinery						116		116	51
28. Credit									
29. International									
30. Reinsurance-Nonproportional Assumed Property	X X X				X X X				
31. Reinsurance-Nonproportional Assumed Liability	X X X	2,291		2,291	X X X			2,291	
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
33. Aggregate write-ins for other lines of business									
34. TOTALS	19,256,420	5,585,379	19,256,420	5,585,379	11,965,449	3,922,725	11,965,449	9,508,104	2,175,926

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

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

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

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	2,945,695			2,945,695
1.2 Reinsurance assumed	446,074			446,074
1.3 Reinsurance ceded	2,945,695			2,945,695
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	446,074			446,074
2. Commission and brokerage:				
2.1 Direct, excluding contingent		15,032,118		15,032,118
2.2 Reinsurance assumed, excluding contingent		1,359,888		1,359,888
2.3 Reinsurance ceded, excluding contingent		14,863,878		14,863,878
2.4 Contingent-direct				
2.5 Contingent-reinsurance assumed		(341,053)		(341,053)
2.6 Contingent-reinsurance ceded		(653,307)		(653,307)
2.7 Policy and membership fees				
2.8 Net commission and brokerage (2.1 + 2.2 - 2.3 + 2.4 + 2.5 - 2.6 + 2.7)		1,840,382		1,840,382
3. Allowances to manager and agents		3,179		3,179
4. Advertising	13,568	57,882	324	71,774
5. Boards, bureaus and associations	1,542	30,534	4	32,080
6. Surveys and underwriting reports		22,550	64	22,614
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries	385,364	851,359	49,218	1,285,941
8.2 Payroll taxes	23,918	67,080	2,304	93,302
9. Employee relations and welfare	85,455	245,247	3,005	333,707
10. Insurance	65,405	4,322	468	70,195
11. Directors' fees	1	8		9
12. Travel and travel items	21,612	64,338	815	86,765
13. Rent and rent items	32,645	99,446	688	132,779
14. Equipment	17,514	60,873	878	79,265
15. Cost or depreciation of EDP equipment and software	19,235	27,417	264	46,916
16. Printing and stationery	5,268	16,677	122	22,067
17. Postage, telephone and telegraph, exchange and express	13,284	47,262	236	60,782
18. Legal and auditing	5,079	15,918	6,578	27,575
19. Totals (Lines 3 to 18)	689,890	1,614,092	64,968	2,368,950
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 3,101		268,357		268,357
20.2 Insurance department licenses and fees		7,217		7,217
20.3 Gross guaranty association assessments		(2,107)		(2,107)
20.4 All other (excluding federal and foreign income and real estate)		12,409		12,409
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		285,876		285,876
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	88,279	107,863	4,596	200,738
25. Total expenses incurred	1,224,243	3,848,213	69,564 (a)	5,142,020
26. Less unpaid expenses-current year	2,175,926	907,636		3,083,562
27. Add unpaid expenses-prior year	2,020,098	746,785		2,766,883
28. Amounts receivable relating to uninsured plans, prior year				
29. Amounts receivable relating to uninsured plans, current year				
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	1,068,415	3,687,362	69,564	4,825,341

DETAILS OF WRITE-INS				
2401. Change in unallocated expense reserves	54,806			54,806
2402. Other expenses	33,473	107,863	4,596	145,932
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	88,279	107,863	4,596	200,738

(a) Includes management fees of \$ 69,564 to affiliates and \$ 0 to non-affiliates.

**EXHIBIT OF NET INVESTMENT INCOME**

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 3,158,131	3,167,012
1.1 Bonds exempt from U.S. tax	(a) 1,228,563	1,414,299
1.2 Other bonds (unaffiliated)	(a) 3,002,244	3,133,702
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	21,334	21,334
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 911,909	757,814
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income	103,768	103,768
10. Total gross investment income	8,425,949	8,597,929
11. Investment expenses		(g) 69,564
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)		69,564
17. Net investment income (Line 10 minus Line 16)		8,528,365
<b>DETAILS OF WRITE-INS</b>		
0901. Miscellaneous Income/(Expense)	103,768	103,768
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)	103,768	103,768
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 \$ 116,244 accrual of discount less \$ 122,989 amortization of premium and less \$ 130,515 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 \$ 104,334 accrual of discount less \$ 0 amortization of premium and less \$ 12,535 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	1,550		1,550		
1.1 Bonds exempt from U.S. tax					
1.2 Other bonds (unaffiliated)	84,064		84,064		
1.3 Bonds of affiliates					
2.1 Preferred stocks (unaffiliated)					
2.11 Preferred stocks of affiliates					
2.2 Common stocks (unaffiliated)				(13,338)	
2.21 Common stocks of affiliates					
3. Mortgage loans					
4. Real estate					
5. Contract loans					
6. Cash, cash equivalents and short-term investments					
7. Derivative instruments					
8. Other invested assets	(40,253)		(40,253)		
9. Aggregate write-ins for capital gains (losses)					
10. Total capital gains (losses)	45,361		45,361	(13,338)	

<b>DETAILS OF WRITE-INS</b>					
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	22,618	15,199	(7,419)
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,897	9,353	(544)
13.3 Accrued retrospective premiums	4,224	3,829	(395)
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers			
14.2 Funds held by or deposited with reinsured companies			
14.3 Other amounts receivable under reinsurance contracts			
15. Amounts receivable relating to uninsured plans			
16.1 Current federal and foreign income tax recoverable and interest thereon			
16.2 Net deferred tax asset	913,346		(913,346)
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	4,090	2,488	(1,602)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	954,175	30,869	(923,306)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	954,175	30,869	(923,306)

<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	4,090	2,488	(1,602)
2302.			
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page			
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	4,090	2,488	(1,602)

## NOTES TO FINANCIAL STATEMENTS

### **Note 1- Summary of Significant Accounting Policies**

#### A. Accounting Practices

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

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

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

#### C. Accounting Policies

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

In addition, the Company uses the following accounting policies:

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

#### C. Impairment Loss

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## NOTES TO FINANCIAL STATEMENTS

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Not applicable

### **Note 4- Discontinued Operations**

The Company has no discontinued operations to report.

### **Note 5- Investments**

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

The Company has no mortgage loans.

#### B. Troubled Debt Restructuring for Creditors

Not applicable

#### C. Reverse Mortgages

The Company has no reverse mortgages.

#### D. Loan-Backed Securities

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

#### E. Repurchase Agreements

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

#### F. Real Estate

The Company does not own real estate.

#### G. Investments in Low-Income Housing Tax Credits

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

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

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

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

Not applicable

### **Note 7- Investment Income**

#### A. Accrued Investment Income

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

#### B. Amounts Nonadmitted

No amounts were excluded as of December 31, 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:

	December 31, 2007	December 31, 2006	Change
Total of gross deferred tax assets	7,851,000	7,217,000	634,000
Total of deferred tax liabilities	(6,288,000)	(6,295,000)	7,000
Net deferred tax asset (liability)	1,563,000	922,000	641,000
Net deferred tax asset non-admitted	(913,346)	0	(913,346)
Net admitted deferred tax asset (liability)	649,654	922,000	(272,346)

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



## NOTES TO FINANCIAL STATEMENTS

C. The provisions for incurred taxes on earnings for the years ended December 31, 2007 are:

	2007	2006
Federal tax on operations	9,664,734	(2,143,853)
Net operating loss benefit	0	0
Foreign tax on operations	0	0
Income tax incurred on operations	9,664,734	(2,143,853)
Tax on capital gains	15,876	13,168
Total income tax incurred	9,680,610	(2,130,685)

The Company's deferred tax assets and liabilities result primarily from discounting of unpaid loss and LAE reserves, limits on unearned premium reserve deductions, deferred intercompany transactions, state assessments, and the reversal of discount accretion on bonds.

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

	2007
Change in net deferred income tax (without unrealized gain or loss)	636,332
Tax effect of unrealized (gains) losses	4,668
Total change in net deferred income tax	641,000

- D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest and revisions to prior year estimates.
- E. The amount of Federal income taxes paid and available for recoupment in the event of future losses is \$2,583,000 from the current year and \$5,914,000 from the preceding year.

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

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

Access Insurance Services, Co.	Liberty 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.*
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

## NOTES TO FINANCIAL STATEMENTS

Liberty Insurance Company of America  
 Liberty Insurance Corporation  
 Liberty Insurance Holdings, Inc.  
 Liberty Insurance Underwriters, Inc.  
 Liberty Life Assurance Company of Boston  
 Liberty Life Holdings, Inc.  
 Liberty Lloyds of Texas Insurance Company  
 Liberty Management Services, Inc.  
 Liberty Mexico Holdings, Inc.  
 Liberty Mutual Fire Insurance Company

The Midwestern Indemnity Company  
 The National Corporation  
 The Netherlands Insurance Company  
 Wausau Service Corporation  
 Wausau Signature Agency, Inc.  
 Wausau Business Insurance Company  
 Wausau General Insurance Company  
 Wausau Underwriters Insurance Company  
 West American 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 outstanding shares in the Company are owned by Liberty-USA Corporation, an insurance holding company incorporated in the State of Delaware. The outstanding shares of Liberty-USA are owned by Peerless Insurance Company ("PIC"), a New Hampshire company. PIC is a wholly owned subsidiary of LIH US P&C Corporation, an insurance holding company incorporated in Delaware. LIH US P&C is wholly owned by Liberty Mutual Insurance Holdings, Inc., an insurance holding company incorporated in Delaware. Liberty Mutual Insurance Holdings, Inc. is wholly owned by Liberty Mutual Insurance Company ("LMIC"), a Massachusetts company. LMIC is wholly owned by Liberty Mutual Group, Inc., a Massachusetts company.
- B. Transactions entered into by the Company with its affiliates are described on Schedule Y Part 2.
- C. Refer to Note 25.
- D. At December 31, 2007, the Company reported \$180,623 due to affiliates. In general, the terms of the inter-company arrangements require settlement at least quarterly.
- E. The Company has made no guarantee or initiated undertaking for the benefit of affiliates which result in a material contingent exposure of the Company's or affiliates' assets or liabilities.
- F. Refer to Note 25 for information regarding the Amended and Restated Reinsurance Pooling Agreement.

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

The Company entered into investment management agreements, effective January 1, 2007 with LMIC, and effective May 1, 2000 with Liberty Mutual Investment Advisors LLC (LMIA). Under these agreements, LMIC and LMIA provide investment management services to the Company.

The Company entered into a cash management agreement with LMIA effective January 28, 2000.

The Company is party to a Federal Tax Sharing Agreement, effective January 1, 2002, between LMIC and affiliates (see Note 9F).

The Company entered into a management services agreement, effective December 15, 2001, with LMIC. Under the agreement, LMIC may provide services related to common management functions including, but not limited to, accounting, financial, tax and auditing, information technology and support, purchasing, payroll and employee benefits, policy administration, real estate management, legal, general administration, as well as consulting and other services as the parties may request.

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

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

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## NOTES TO FINANCIAL STATEMENTS

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- L. Investment in downstream non-insurance holding companies.

Refer to 10 I

### **Note 11- Debt**

Not applicable.

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

The Company does not have any direct employees and therefore, does not have any direct obligations for a defined benefit plan, deferred compensation arrangements, compensated absences or other post retirement benefit plans. Services for the operation of the Company are provided under provisions of the management services agreements as described in note 10 F.

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

1. Capital Stock

The Company has 10,000 shares authorized, issued, and outstanding as of December 31, 2007. All shares have a stated par value of \$350.

2. Preferred Stock

Not applicable

3. Dividend Restrictions

There are no dividend restrictions.

4. The maximum amount of dividends which can be paid by Illinois-domiciled insurance companies to shareholders without prior approval of the Insurance Commissioner is the greater of (a) 10% of policyholders' surplus, or (b) net income. The maximum dividend payout which may be made without prior approval in 2008 is \$16,689,564.

5. The Company does not have restricted unassigned surplus.

6. The Company had no advances to surplus.

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

8. The Company had no changes in special surplus funds.

9. The portion of unassigned funds (surplus) represented by cumulative unrealized gains and (losses) is \$(7,303).

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

- B. Assessments

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

The Company has accrued a liability for guaranty funds and other assessments of \$67,147 that is offset by future premium tax credits of \$13,494. 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. Claims related extra contractual obligations and bad faith losses stemming from lawsuits

The Company did not have claims related extra contractual obligation losses and bad faith losses stemming from lawsuits in the current period.

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's minimum lease obligations under these agreements are as follows:

Year(s)	Operating Lease Arrangements
2008	\$39,449
2009	35,333
2010	30,049
2011	23,118
2012	22,013
2013 & thereafter	54,592
Total	\$204,554

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

Not applicable

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

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

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

A. Transfers of receivables reported as sales:

The Company did not sell premium receivables.

B. Transfers and servicing of financial assets:

The Company participates in a Securities Lending Program to generate additional income, whereby certain fixed income securities are loaned for a 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 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 \$32,854,037 with corresponding collateral value of \$34,340,838 of which \$9,341,002 represents cash collateral.

C. Wash Sales

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

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

A. Administrative Services Only (ASO) Plans

Not applicable

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**NOTES TO FINANCIAL STATEMENTS**


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## 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) Assets in the amount of \$5,521,488 and \$5,715,414 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.

**Note 21- Events Subsequent**

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

**Note 22- Reinsurance**

## A. Excluding amounts arising pursuant to the PIC Inter-Company Reinsurance Agreement, as described in Note 25, there are no unsecured reinsurance recoverables with an individual reinsurer which exceed 3% of policyholders surplus.

## B. There are no reinsurance recoverables in dispute from an individual reinsurer which exceed 5% of the Company's surplus. In addition, the aggregate reinsurance recoverables in dispute do not exceed 10% of the Company's surplus.

## C. The Company did not have any Assumed &amp; Ceded Reinsurance

1. The following table sets forth the maximum return premium and commission equity due the reinsurer or the Company if all of the Company's assumed and ceded reinsurance were canceled as of December 31, 2007.

	<u>Assumed Reinsurance</u>		<u>Ceded Reinsurance</u>		<u>Net Reinsurance</u>	
	UEP	Commission Equity	UEP	Commission Equity	UEP	Commission Equity
Affiliates	\$5,076,012	\$365,323	\$53,951,813	\$5,519,766	\$(48,875,801)	\$(5,154,433)
All Other	0	0	0	0	0	0
Total	\$5,076,012	\$365,323	\$53,951,813	\$5,519,766	\$(48,875,801)	\$(5,154,433)

Direct unearned premium reserve of \$53,951,813

## NOTES TO FINANCIAL STATEMENTS

2. Certain contracts provide for additional or return commissions based on the actual loss experience of the produced or reinsured business. Amounts accrued at December 31, 2007 are as follows:

Direct	\$0
Assumed	323,258
Ceded	0
Net	\$323,258

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

- D. The Company did not write off any uncollectible balances in 2007.
- E. The Company does not have ceded commutations.
- F. The Company does not have any retroactive reinsurance agreements.
- G. The Company has not entered into any deposit type reinsurance agreements as of December 31, 2007.

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

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

a. Total accrued retro premium	\$33,109
b. Less: Non-admitted amount	4,224
c. Admitted amount	\$28,884

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

Reserves for incurred loss and loss adjustment expenses attributed to insured events of prior years has decreased during 2007, primarily as a result of improving loss trends in the Commercial Multiple Peril, Commercial Auto Liability and Workers Compensation lines of business. Prior estimates are revised as additional information becomes known regarding individual claims.

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

The Company is a member of the PIC Amended and Restated Reinsurance Pooling Agreement consisting of the following affiliated companies:

		<u>NAIC</u> <u>Co. #</u>	<u>Pooling</u> <u>%</u>	<u>Lines of</u> <u>Business</u>
Lead Company	Peerless Insurance Company (PIC)	24198	70.93%	All Lines
Affiliated Pool Companies:	Peerless Indemnity Insurance Company (PIIC)	18333	0.30%	All Lines
	Golden Eagle Insurance Corporation (GEIC)	10836	13.25%	All Lines (Except WC)
	Indiana Insurance Company (IIC)	22659	12.25%	All Lines
	The Netherlands Insurance Company (NIC)	24171	3.27%	All Lines
	American Ambassador Casualty Company (AACC)	10073	0.00%	All Lines
	America First Insurance Company (AFIC)	12696	0.00%	All Lines
	America First Lloyd's Insurance Company (AFLIC)	11526	0.00%	All Lines
	Colorado Casualty Insurance Company (CCIC)	41785	0.00%	All Lines
	Consolidated Insurance Company (CIC)	22640	0.00%	All Lines
	Excelsior Insurance Company (EIC)	11045	0.00%	All Lines
	Globe American Casualty Company (GACC)	11312	0.00%	All Lines
	Hawkeye-Security Insurance Company (HSIC)	36919	0.00%	All Lines
	Liberty Mutual Mid-Atlantic Insurance Company (LMMAIC)	14486	0.00%	All Lines
	Mid-American Fire & Casualty Company (MAFCC)	23507	0.00%	All Lines
	Montgomery Mutual Insurance Company (MMC)	14613	0.00%	All Lines
	The Midwestern Indemnity Insurance Company (MWIC)	23515	0.00%	All Lines
			100.00%	

## NOTES TO FINANCIAL STATEMENTS

100% Quota Share				
Affiliated Companies:	Liberty Northwest Insurance Corporation (LNW)	41939	0.00%	All Lines
	National Insurance Association (NIA)	27944	0.00%	All Lines
	North Pacific Insurance Company (NPIC)	23892	0.00%	All Lines
	Oregon Automobile Insurance Company (OAIC)	23922	0.00%	All Lines

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

- (a) Each Affiliated Pool Company cedes its net underwriting activity to the Lead Company.
- (b) Each 100% Quota Share Affiliated Company cedes its net underwriting activity to the Lead Company.
- (c) After recording the assumed affiliate transactions noted above, the Lead Company records 100% of its external assumed and ceded reinsurance activity.
- (d) The Lead Company's remaining underwriting activity, after processing all internal and external reinsurance is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above.
- (e) There were no members that are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement that have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.
- (f) There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the Lead Company and corresponding entries on the assumed and ceded reinsurance schedules of other pooled participants.
- (g) The write-off of uncollectible reinsurance is pooled and the Provision for Reinsurance is recognized by the entity placing the outbound external reinsurance.

Pursuant to the approval of the appropriate state insurance departments, effective January 1, 2008, the PIC Amended and Restated Reinsurance Pooling Agreement was amended to adjust pooling percentages and add the affiliates noted below. Concurrently, each company noted below terminated their existing inter-company reinsurance agreements.

American Fire and Casualty Company  
 Avomark Insurance Company  
 National Insurance Association  
 Ohio Casualty of New Jersey, Inc.  
 Ohio Security Insurance Company  
 The Ohio Casualty Insurance Company  
 West American Insurance Company

Effective January 1, 2008 Bridgefield Employers Insurance Company and Bridgefield Casualty Insurance Company novated their 100% quota share agreements with Liberty Mutual Insurance Company to substitute PIC as the reinsurer.

Therefore, effective January 1, 2008, the PIC Amended and Restated Reinsurance Pooling Agreement consisted of the following affiliated companies:

		<u>NAIC</u> <u>Co. #</u>	<u>Pooling</u> <u>%</u>	<u>Lines of</u> <u>Business</u>
Lead Company	Peerless Insurance Company (PIC)	24198	42.00%	All Lines
Affiliated Pool Companies:	Peerless Indemnity Insurance Company (PIIC)	18333	5.00%	All Lines
	Golden Eagle Insurance Corporation (GEIC)	10836	7.00%	All Lines (Except WC)
	Indiana Insurance Company (IIC)	22659	8.00%	All Lines
	The Netherlands Insurance Company (NIC)	24171	3.00%	All Lines
	American Fire and Casualty Company (AFCC)	24066	1.00%	All Lines
	The Ohio Casualty Insurance Company (OCIC)	24074	34.00%	All Lines
	Avomark Insurance Company (AIC)	10798	0.00%	All Lines
	American Ambassador Casualty Company (AACC)	10073	0.00%	All Lines
	America First Insurance Company (AFIC)	12696	0.00%	All Lines
	America First Lloyd's Insurance Company (AFLIC)	11526	0.00%	All Lines
	Colorado Casualty Insurance Company (CCIC)	41785	0.00%	All Lines
	Consolidated Insurance Company (CIC)	22640	0.00%	All Lines
	Excelsior Insurance Company (EIC)	11045	0.00%	All Lines
	Globe American Casualty Company (GACC)	11312	0.00%	All Lines
	Hawkeye-Security Insurance Company (HSIC)	36919	0.00%	All Lines
	Liberty Mutual Mid-Atlantic Insurance Company (LMMAIC)	14486	0.00%	All Lines
	Mid-American Fire & Casualty Company (MAFCC)	23507	0.00%	All Lines
	Montgomery Mutual Insurance Company (MMC)	14613	0.00%	All Lines
	The Midwestern Indemnity Insurance Company (MWIC)	23515	0.00%	All Lines
	National Insurance Association (NIA)	27944	0.00%	All Lines
	Ohio Casualty of New Jersey, Inc. (OCNJ)	10937	0.00%	All Lines
	Ohio Security Insurance Company (OSIC)	24082	0.00%	All Lines
	West American Insurance Company (WAIC)	44393	0.00%	All Lines

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**NOTES TO FINANCIAL STATEMENTS**


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100.00%

100% Quota Share

Affiliated Companies:	Liberty Northwest Insurance Corporation (LNW)	41939	0.00%	All Lines
	Bridgefield Casualty Insurance Company (BCIC)	10335	0.00%	All Lines
	Bridgefield Employers Insurance Company (BEIC)	10701	0.00%	All Lines
	North Pacific Insurance Company (NPIC)	23892	0.00%	All Lines
	Oregon Automobile Insurance Company (OAIC)	23922	0.00%	All Lines

**Note 26- Structured Settlements**

- A. As a result of purchased annuities with the claimant as payee, the Company no longer carries reserves of \$165,790 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 \$165,790 as of December 31, 2007.
- B. The Company does not have material structured settlements from life insurers for which the Company has not obtained a release of liability from the claimant.

**Note 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**

The Company does not have any high deductible policies.

**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 3.5%. The December 31, 2007 liabilities of \$3,958,745 are carried at a discounted value of \$3,853,348 representing a discount of \$105,397.

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. In establishing the Company's asbestos and environmental reserves, the Company estimates case basis reserves for anticipated losses and bulk reserves for loss adjustment expenses and incurred but not reported losses. The Company maintained casualty excess of loss reinsurance during the relevant periods. The reserves are reported net of expected recoveries from reinsurers and include any reserves reported by ceding reinsurers on assumed reinsurance contracts.

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

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

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

In 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



## NOTES TO FINANCIAL STATEMENTS

unimpaired plaintiffs and providing prompt and fair compensation to those who meet the criteria.

### 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	45,624			54,032	59,862
Incurred losses and LAE	10,318	51,719	54,259	9,917	(22,659)
Calendar year payments	4,223	9,698	7,235	4,087	3,663
Ending Reserves	51,719	7,158	7,462	59,862	33,540
<b>Assumed Reinsurance Basis</b>					
Beginning Reserves	4,013			903	903
Incurred losses and LAE	-	2,846	-	-	-
Calendar year payments	1,167			-	-
Ending Reserves	2,846	1,943		903	903
<b>Net of Ceded Reinsurance Basis</b>					
Beginning Reserves	37,964			41,476	47,307
Incurred losses and LAE	14,621	47,195	43,122	8,117	(18,363)
Calendar year payments	5,390	3,578	5,816	2,286	3,663
Ending Reserves	47,195	7,651	7,462	47,307	25,281
<b>Ending Reserves for Bulk + IBNR included above (Loss &amp; LAE)</b>					
Direct Basis					21,538
Assumed Reinsurance Basis					903
Net of Ceded Reinsurance Basis					13,280
<b>Ending Reserves for LAE included above (Case, Bulk &amp; IBNR)</b>					
Direct Basis					9,248
Assumed Reinsurance Basis					-
Net of Ceded Reinsurance Basis					7,777

### Environmental:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Direct Basis</b>					
Beginning Reserves	39,696	38,973	41,874	52,605	38,747
Incurred losses and LAE	2,231	8,968	25,552	8,846	153,046
Calendar year payments	2,954	6,067	14,821	22,704	27,074
Ending Reserves	38,973	41,874	52,605	38,747	164,719
<b>Assumed Reinsurance Basis</b>					
Beginning Reserves	2,258	16,816	15,597	15,954	14,556
Incurred losses and LAE	15,000	-	413	1,050	633
Calendar year payments	442	1,219	56	2,448	46
Ending Reserves	16,816	15,597	15,954	14,556	15,143

**NOTES TO FINANCIAL STATEMENTS**

<b>Net of Ceded Reinsurance Basis</b>					
Beginning Reserves	31,368	52,391	43,891	42,771	26,238
Incurring losses and LAE	23,454	581	12,996	4,119	166,354
Calendar year payments	2,431	9,081	14,116	20,652	22,194
Ending Reserves	<u>52,391</u>	<u>43,891</u>	<u>42,771</u>	<u>26,238</u>	<u>170,398</u>

<b>Ending Reserves for Bulk + IBNR included above (Loss &amp; LAE)</b>		
Direct Basis		132,205
Assumed Reinsurance Basis		14,516
Net of Ceded Reinsurance Basis		142,637
<b>Ending Reserves for LAE included above (Case, Bulk &amp; IBNR)</b>		
Direct Basis		4,249
Assumed Reinsurance Basis		-
Net of Ceded Reinsurance Basis		6,906

**Note 33- Subscriber Savings Accounts**

The Company is not a reciprocal insurance company.

**Note 34 - Multiple Peril Crop Insurance**

Not applicable

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	35,983,016	18.964	35,983,016	18.964
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	19,533,626	10.295	19,533,626	10.295
1.22 Issued by U.S. government sponsored agencies	5,027,383	2.650	5,027,383	2.650
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	9,960,158	5.249	9,960,158	5.249
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	13,044,051	6.875	13,044,051	6.875
1.43 Revenue and assessment obligations	11,889,068	6.266	11,889,068	6.266
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	2,312,346	1.219	2,312,346	1.219
1.512 Issued or guaranteed by FNMA and FHLMC	40,867,118	21.538	40,867,118	21.538
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	689,602	0.363	689,602	0.363
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	4,416,644	2.328	4,416,644	2.328
1.523 All other	6,086,676	3.208	6,086,676	3.208
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	16,339,711	8.612	16,339,711	8.612
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	1,821,882	0.960	1,821,882	0.960
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	18,315	0.010	18,315	0.010
8. Cash, cash equivalents and short-term investments	11,751,430	6.193	11,751,430	6.193
9. Other invested assets	10,000,000	5.270	10,000,000	5.270
10. Total invested assets	189,741,026	100.000	189,741,026	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 0%
- 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).
- | 1<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? William M. Finn, FCAS, MAAA  
 62 Maple Avenue, Keene, NH 03431  
 Vice President & Chief Actuary of Liberty Mutual Agency Markets
- 11.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [ ] No [X]
- |   |       |
|---|-------|
| 11.11 Name of real estate holding company | _____ |
| 11.12 Number of parcels involved          | 0     |
| 11.13 Total book/adjusted carrying value  | \$ 0  |

- 11.2 If yes, provide explanation: \_\_\_\_\_
12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 12.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?  
 \_\_\_\_\_
- 12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [X]
- 12.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [X]
- 12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [X]
- 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?  
 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. Yes [X] No [ ]
- 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              | \$ 0 |
| 18.12 To stockholders not officers                | \$ 0 |
| 18.13 Trustees, supreme or grand (Fraternal only) | \$ 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              | \$ 0 |
| 18.22 To stockholders not officers                | \$ 0 |
| 18.23 Trustees, supreme or grand (Fraternal only) | \$ 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   | \$ | 0 |
| 19.22 | Borrowed from others | \$ | 0 |
| 19.23 | Leased from others   | \$ | 0 |
| 19.24 | Other                | \$ | 0 |
- 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 | \$ | 0 |
| 20.22 | Amount paid as expenses                  | \$ | 0 |
| 20.23 | Other amounts paid                       | \$ | 0 |
- 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                                 | \$ | 32,854,037 |
| 23.22  | Subject to repurchase agreements                 | \$ | 0          |
| 23.23  | Subject to reverse repurchase agreements         | \$ | 0          |
| 23.24  | Subject to dollar repurchase agreements          | \$ | 0          |
| 23.25  | Subject to reverse dollar repurchase agreements  | \$ | 0          |
| 23.26  | Pledged as collateral                            | \$ | 0          |
| 23.27  | Placed under option agreements                   | \$ | 0          |
| 23.28  | Letter stock or securities restricted as to sale | \$ | 0          |
| 23.29  | On deposit with state or other regulatory body   | \$ | 5,521,488  |
| 23.291 | Other  | \$ | 0          |

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#100	LMIA HIGH YIELD FUND	276,704
27.2999	Total	276,704

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 FUND	JP MORGAN PRIME-CAPITAL FUNDS	9,756	12/31/2007
LMIA HIGH YIELD FUND	ALLIED WASTE NORTH AMER	5,824	12/31/2007
LMIA HIGH YIELD FUND	CHESAPEAKE ENERGY CORP	5,376	12/31/2007
LMIA HIGH YIELD FUND	MULTIPLAN INC	5,264	12/31/2007
LMIA HIGH YIELD FUND	WILLIAMS PARTNERS LP/WIL	4,829	12/31/2007
LMIA HIGH YIELD FUND	VENTAS REALTY LP/CAP CRP	4,630	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	177,046,163	178,659,550	1,523,386
28.2 Preferred stocks			
28.3 Totals	177,046,163	178,659,550	1,523,386

28.4 Describe the sources or methods utilized in determining the fair values: IDC, Bloomberg, NAIC-SVO, 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 Current Year	2 Prior Year
2.1 Premium Numerator	\$ 0	\$ 0
2.2 Premium Denominator	\$ 10,801,577	\$ 10,281,615
2.3 Premium Ratio (2.1/2.2)	0.00	0.00
2.4 Reserve Numerator	\$ 0	\$ 8
2.5 Reserve Denominator	\$ 17,253,842	\$ 28,297,363
2.6 Reserve Ratio (2.4/2.5)	0.00	

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 \$ 601,526  
 3.22 Non-participating policies \$ 95,094,831

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 Workers Compensation Catastrophe reinsurance separately and/or with the Liberty Mutual Group with limits of \$1,175m xs \$25m. A minimum of 75% was placed for each layer.
- 6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process: The Company tracks aggregate property and WC exposure and reviews quarterly. It uses RiskLink from RMS and AIR from AIR for EQ and wind. It uses RiskLink for WC. Concentrations are in the Northeast for wind and New Madrid for EQ.
- 6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss? In 2007, the Company purchased property catastrophe reinsurance, separately and/or with the Liberty Mutual Group with limits of \$1,900m xs \$50m. The coverage is sufficient to protect against the Company's 250 year event.
- 6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? YES  NO
- 6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to uninsured catastrophic loss
- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? YES  NO
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions. 0
- 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   |  | \$ | 236,374 |
|  | 12.12 Unpaid underwriting expenses (including loss adjustment expenses) |  | \$ | 20,880  |
- 12.2 Of the amount on Line 13.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? \$ 7,725
- 12.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium notes or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? YES [ ] NO [X] N/A [ ]
- 12.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
- |  |            |  |  |         |
|--|------------|--|--|---------|
|  | 12.41 From |  |  | 0.000 % |
|  | 12.42 To   |  |  | 0.000 % |
- 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 [ ] NO [X]
- 12.6 If yes, state the amount thereof at December 31 of current year:
- |  |                                  |  |    |   |
|--|----------------------------------|--|----|---|
|  | 12.61 Letters of Credit          |  | \$ | 0 |
|  | 12.62 Collateral and other funds |  | \$ | 0 |
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ 75,000
- 13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? YES [ ] NO [X]
- 13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. 3
- 14.1 Is the company a cedant in a multiple cedant reinsurance contract? YES [X] NO [ ]
- 14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants: Premiums and recoverables were allocated pursuant to separate intercompany agreements.
- 
- 14.3 If the answer to 14.1 is yes, are the methods described in item 14.2 entirely contained in the respective multiple cedant reinsurance contracts? YES [ ] NO [X]
- 14.4 If the answer to 14.3 is no, are all the methods described in 14.2 entirely contained in written agreements? YES [X] NO [ ]
- 14.5 If the answer to 14.4 is no, please explain:
- 
- 15.1 Has the reporting entity guaranteed any financed premium accounts? YES [ ] NO [X]
- 15.2 If yes, give full information
- 
- 16.1 Does the reporting entity write any warranty business? YES [ ] NO [X]
- If yes, disclose the following information for each of the following types of warranty coverage:

	1	2	3	4	5
	Direct Losses Incurred	Direct Losses Unpaid	Direct Written Premium	Direct Premium Unearned	Direct Premium Earned
16.11 Home	\$ 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	\$	0
17.12	Unfunded portion of Interrogatory 17.11	\$	0
17.13	Paid losses and loss adjustment expenses portion of Interrogatory 17.11	\$	0
17.14	Case reserves portion of Interrogatory 17.11	\$	0
17.15	Incurred but not reported portion of Interrogatory 17.11	\$	0
17.16	Unearned premium portion of Interrogatory 17.11	\$	0
17.17	Contingent commission portion of Interrogatory 17.11	\$	0

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	\$	0
17.19	Unfunded portion of Interrogatory 17.18	\$	0
17.20	Paid losses and loss adjustment expenses portion of Interrogatory 17.18	\$	0
17.21	Case reserves portion of Interrogatory 17.18	\$	0
17.22	Incurred but not reported portion of Interrogatory 17.18	\$	0
17.23	Unearned premium portion of Interrogatory 17.18	\$	0
17.24	Contingent commission portion of Interrogatory 17.18	\$	0

## 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)	(9,872,604)	132,248,181	(16,679,210)	433,769,407	361,446,850
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	1,146,188	44,932,716	(10,075,742)	194,247,226	194,013,669
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	16,948,557	98,306,306	(66,189,017)	422,319,164	326,867,898
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	3,397	26,073	(503,935)	558,844	533,084
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)					(2,997)
6. Total (Line 34)	8,225,538	275,513,276	(93,447,904)	1,050,894,641	882,858,504
<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)	5,121,318	4,918,086	(136,852,905)	318,877,107	254,861,754
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	1,612,085	1,546,258	(60,492,797)	134,035,310	118,009,353
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	4,406,411	4,293,571	(153,358,567)	332,623,048	245,712,694
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	3,397	26,073	(503,935)	558,604	536,437
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)					(2,997)
12. Total (Line 34)	11,143,211	10,783,988	(351,208,204)	786,094,069	619,117,241
<b>Statement of Income</b> (Page 4)					
13. Net underwriting gain (loss) (Line 8)	182,337	31,314	138,148	297,672	33,058,506
14. Net investment gain (loss) (Line 11)	8,557,849	(101,175,205)	30,059,063	60,521,658	47,606,390
15. Total other income (Line 15)	21,763	18,456	(9,989)	424,439	(3,024,454)
16. Dividends to policyholders (Line 17)	25,996	29,064	14,299	989,128	1,065,735
17. Federal and foreign income taxes incurred (Line 19)	9,664,734	(2,143,853)	(29,579,690)	26,466,565	24,190,481
18. Net income (Line 20)	(928,781)	(99,010,646)	59,752,613	33,788,076	52,384,226
<b>Balance Sheet Lines</b> (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	196,263,441	246,151,279	633,822,800	1,579,863,464	1,412,478,410
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	524,753	724,773	16,800,254	35,438,356	87,292,713
20.2 Deferred and not yet due (Line 13.2)	3,443,203	18,243,506	2,326,579	204,088,595	176,953,923
20.3 Accrued retrospective premiums (Line 13.3)	28,885	34,466			4,649,318
21. Total liabilities excluding protected cell business (Page 3, Line 24)	29,367,800	78,031,214	57,464,824	1,035,224,569	907,623,786
22. Losses (Page 3, Line 1)	9,508,103	8,804,204	17,311,051	480,141,800	375,434,290
23. Loss adjustment expenses (Page 3, Line 3)	2,175,926	2,020,098	1,519,164	112,881,875	74,691,839
24. Unearned premiums (Page 3, Line 9)	5,076,012	4,743,232	4,233,774	370,838,037	302,045,922
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)	166,895,641	168,120,065	576,357,976	544,638,895	504,854,624
<b>Cash Flow</b> (Page 5)					
27. Net cash from operations (Line 11)	9,186,449	51,280,591	(717,923,738)	236,360,283	110,948,160
<b>Risk-Based Capital Analysis</b>					
28. Total adjusted capital	166,895,641	168,120,065	576,357,976	544,638,895	504,854,624
29. Authorized control level risk-based capital	1,683,197	1,657,658	23,497,486	76,414,645	57,728,331
<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)	87.6	71.1	53.7	73.1	70.5
31. Stocks (Lines 2.1 & 2.2)	0.1	0.1	39.6	18.0	19.4
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)	7.0	23.8	4.6	7.2	8.4
35. Contract loans (Line 6)					
36. Other invested assets (Line 7)	5.3	5.0	2.1	1.4	1.6
37. Receivables for securities (Line 8)				0.2	0.1
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)			172,510,092	163,174,217	159,759,684
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	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
46. Total of above Lines 40 to 45	10,000,000	10,000,000	182,510,092	173,174,217	169,759,684
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)	6.0		31.7	30.0	31.6

## 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)	(8,670)	127,436,206	7,168,387	4,280,301	13,023,737
49. Dividends to stockholders (Line 35)		(435,939,572)			(2,000,000)
50. Change in surplus as regards policyholders for the year (Line 38)	(1,224,424)	(408,237,911)	31,719,081	39,784,271	95,297,064
<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)	119,332,010	64,998,349	365,714,639	165,399,046	179,026,173
52. Property lines (Lines 1, 2, 9, 12, 21 & 26)	11,900,535	31,834,290	36,568,497	80,796,723	84,897,347
53. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	56,438,931	47,606,123	197,952,775	128,868,533	124,970,814
54. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	604,397	31,003	364,469	376,774	867,675
55. Nonproportional reinsurance lines (Lines 30, 31 & 32)	440	(1,572)	1,520,420		198,048
56. Total (Line 34)	188,276,313	144,468,193	602,120,800	375,441,076	389,960,057
<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)	2,279,822	391,502	301,037,226	112,424,543	113,840,721
58. Property lines (Lines 1, 2, 9, 12, 21 & 26)	705,912	619,962	7,283,979	49,292,244	49,760,756
59. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,855,691	1,674,773	159,032,548	85,221,860	89,838,524
60. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	1,019	6,003	317,277	121,829	196,187
61. Nonproportional reinsurance lines (Lines 30, 31 & 32)	440	(1,572)	1,520,420		198,048
62. Total (Line 34)	4,842,884	2,690,668	469,191,450	247,060,476	253,834,236
<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)	51.4	54.3	49.3	53.6	51.3
65. Loss expenses incurred (Line 3)	11.3	11.9	13.2	12.9	8.0
66. Other underwriting expenses incurred (Line 4)	35.6	33.5	35.9	33.8	34.7
67. Net underwriting gain (loss) (Line 8)	1.7	0.3	1.6		5.8
<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)	34.3	31.7	(0.9)	30.6	32.5
69. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	62.7	66.2	62.5	66.5	59.3
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)	6.7	6.4	(60.9)	144.3	122.6
<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)	(803)	(162)	(188)	6,502	(1,698)
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)	(0.5)	(0.0)	(0.0)	1.3	(0.4)
<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)	(672)	57	(57)	30,823	311,650,360
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)	(0.1)		(0.0)	7.5	6.8

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

Description		1	2	3	4
		Book/Adjusted Carrying Value	Fair Value	Actual Cost	Par Value of Bonds
<b>BONDS</b> Governments (Including all obligations guaranteed by governments)	1. United States .....	62,856,373	64,222,214	62,981,000	62,255,718
	2. Canada .....				
	3. Other Countries .....				
	4. Totals .....	62,856,373	64,222,214	62,981,000	62,255,718
States, Territories and Possessions (Direct and guaranteed)	5. United States .....	9,960,157	9,919,010	9,958,240	10,000,000
	6. Canada .....				
	7. Other Countries .....				
	8. Totals .....	9,960,157	9,919,010	9,958,240	10,000,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States .....	13,044,053	12,827,185	13,039,217	13,115,000
	10. Canada .....				
	11. Other Countries .....				
	12. Totals .....	13,044,053	12,827,185	13,039,217	13,115,000
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States .....	52,445,927	53,167,196	52,445,089	52,617,233
	14. Canada .....				
	15. Other Countries .....				
	16. Totals .....	52,445,927	53,167,196	52,445,089	52,617,233
Public Utilities (unaffiliated)	17. United States .....	2,943,454	2,958,090	2,938,850	3,000,000
	18. Canada .....				
	19. Other Countries .....				
	20. Totals .....	2,943,454	2,958,090	2,938,850	3,000,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States .....	24,899,435	24,579,090	24,958,579	24,781,803
	22. Canada .....				
	23. Other Countries .....				
	24. Totals .....	24,899,435	24,579,090	24,958,579	24,781,803
Parent, Subsidiaries and Affiliates	25. Totals .....				
	<b>26. Total Bonds</b> .....	166,149,399	167,672,785	166,320,975	165,769,754
<b>PREFERRED STOCKS</b> Public Utilities (unaffiliated)	27. United States .....				
	28. Canada .....				
	29. Other Countries .....				
	30. Totals .....				
Banks, Trust and Insurance Companies (unaffiliated)	31. United States .....				
	32. Canada .....				
	33. Other Countries .....				
	34. Totals .....				
Industrial and Miscellaneous (unaffiliated)	35. United States .....				
	36. Canada .....				
	37. Other Countries .....				
	38. Totals .....				
Parent, Subsidiaries and Affiliates	39. Totals .....				
	<b>40. Total Preferred Stocks</b> .....				
<b>COMMON STOCKS</b> Public Utilities (unaffiliated)	41. United States .....				
	42. Canada .....				
	43. Other Countries .....				
	44. Totals .....				
Banks, Trust and Insurance Companies (unaffiliated)	45. United States .....				
	46. Canada .....				
	47. Other Countries .....				
	48. Totals .....				
Industrial and Miscellaneous (unaffiliated)	49. United States .....	276,704	276,704	284,006	
	50. Canada .....				
	51. Other Countries .....				
	52. Totals .....	276,704	276,704	284,006	
Parent, Subsidiaries and Affiliates	53. Totals .....				
	<b>54. Total Common Stocks</b> .....	276,704	276,704	284,006	
	55. Total Stocks .....	276,704	276,704	284,006	
	56. Total Bonds and Stocks .....	166,426,103	167,949,489	166,604,981	

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

1. Book/adjusted carrying value of bonds and stocks, prior year .....	<u>142,980,702</u>	7. Amortization of premium .....	<u>122,989</u>
2. Cost of bonds and stocks acquired, Column 7, Part 3 .....	<u>59,818,671</u>	8. Foreign Exchange Adjustment:	
3. Accrual of discount .....	<u>116,244</u>	8.1 Column 15, Part 1 .....	
4. Increase (decrease) by adjustment:		8.2 Column 19, Part 2, Section 1 .....	
4.1 Columns 12 - 14, Part 1 .....		8.3 Column 16, Part 2, Section 2 .....	
4.2 Column 15 - 17, Part 2, Section 1 .....		8.4 Column 15, Part 4 .....	
4.3 Column 15, Part 2, Section 2 .....	<u>(13,338)</u>	9. Book/adjusted carrying value at end of current period .....	<u>166,426,103</u>
4.4 Column 11 - 13, Part 4 .....	<u>(13,338)</u>	10. Total valuation allowance .....	
5. Total gain (loss), Column 19, Part 4 .....	<u>85,614</u>	11. Subtotal (Lines 9 plus 10) .....	<u>166,426,103</u>
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4 .....	<u>36,438,801</u>	12. Total nonadmitted amounts .....	
		13. Statement value of bonds and stocks, current period .....	<u>166,426,103</u>

**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	63	21	17	3	8		307	64	X X X
2. 1998	6,543	1,197	5,346	4,393	1,102	342	72	534	126	230	3,969	X X X
3. 1999	6,064	894	5,170	4,317	791	317	50	526	94	231	4,225	X X X
4. 2000	5,763	714	5,049	4,097	657	312	24	469	55	222	4,134	X X X
5. 2001	6,185	838	5,347	3,911	641	319	32	451	59	222	3,957	X X X
6. 2002	8,447	2,015	6,432	4,682	1,042	338	67	412	84	251	4,239	X X X
7. 2003	9,723	1,666	8,057	4,563	895	333	52	634	106	274	4,477	X X X
8. 2004	9,991	933	9,058	4,071	338	226	19	562	41	286	4,461	X X X
9. 2005	10,505	625	9,880	4,058	404	202	20	611	27	249	4,420	X X X
10. 2006	10,838	556	10,282	3,612	146	117	4	615	44	178	4,150	X X X
11. 2007	11,096	294	10,802	2,454	54	53	1	478	2	78	2,928	X X X
12. Totals	X X X	X X X	X X X	40,221	6,091	2,576	344	5,300	638	2,528	41,024	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	628	56	161	43	9	25	9	44	2	1	757	X X X	
2. 1998	165	76	47	33	4	15	8	13	6	1	118	X X X	
3. 1999	169	60	53	36	2	17	8	14	6	1	145	X X X	
4. 2000	158	47	60	35	2	20	6	14	5	1	161	X X X	
5. 2001	256	41	72	35	4	27	4	15	3	2	291	X X X	
6. 2002	268	66	108	33	8	45	3	18	2	6	343	X X X	
7. 2003	271	49	212	35	5	82	3	31		10	514	X X X	
8. 2004	420	35	344	51	4	117	4	49		16	844	X X X	
9. 2005	656	33	553	91	6	198	7	88		26	1,370	X X X	
10. 2006	1,126	47	1,068	170	9	353	14	176		43	2,501	X X X	
11. 2007	1,991	11	1,808	1	15	474		371		104	4,647	X X X	
12. Totals	6,108	521	4,486	563	68	1,373	66	833	24	211	11,691	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	690	67
2. 1998	5,513	1,426	4,087	84.258	119.131	76.450			0.300	103	15
3. 1999	5,415	1,045	4,370	89.297	116.890	84.526			0.300	126	19
4. 2000	5,132	837	4,295	89.051	117.227	85.066			0.300	136	25
5. 2001	5,055	807	4,248	81.730	96.301	79.446			0.300	252	39
6. 2002	5,879	1,297	4,582	69.599	64.367	71.238			0.300	277	66
7. 2003	6,131	1,140	4,991	63.057	68.427	61.946			0.300	399	115
8. 2004	5,793	488	5,305	57.982	52.304	58.567			0.300	678	166
9. 2005	6,372	582	5,790	60.657	93.120	58.603			0.300	1,085	285
10. 2006	7,076	425	6,651	65.289	76.439	64.686			0.300	1,977	524
11. 2007	7,644	69	7,575	68.890	23.469	70.126			0.300	3,787	860
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	9,510	2,181

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	3,073	3,000	2,945	2,853	2,955	2,972	2,956	3,047	3,058	3,177	119	130
2. 1998	3,616	3,578	3,564	3,572	3,558	3,569	3,619	3,657	3,660	3,676	16	19
3. 1999	X X X	3,607	3,668	3,700	3,755	3,787	3,834	3,864	3,886	3,934	48	70
4. 2000	X X X	X X X	3,509	3,662	3,714	3,784	3,773	3,799	3,831	3,876	45	77
5. 2001	X X X	X X X	X X X	3,629	3,588	3,642	3,701	3,698	3,721	3,851	130	153
6. 2002	X X X	X X X	X X X	X X X	4,259	4,355	4,343	4,303	4,324	4,244	(80)	(59)
7. 2003	X X X	X X X	X X X	X X X	X X X	4,376	4,282	4,234	4,276	4,438	162	204
8. 2004	X X X	X X X	X X X	X X X	X X X	X X X	5,489	5,304	5,296	4,745	(551)	(559)
9. 2005	X X X	X X X	X X X	X X X	X X X	X X X	X X X	5,831	5,522	5,122	(400)	(709)
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	6,202	5,908	(294)	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	6,741	X X X	X X X
12. Totals											(805)	(674)

**SCHEDULE P-PART 3-SUMMARY**

Years in Which Losses Were Incurred	Cumulative Paid Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										11	12
	1	2	3	4	5	6	7	8	9	10	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		
1. Prior	000	899	1,426	1,779	1,986	2,103	2,177	2,273	2,364	2,420	X X X	X X X
2. 1998	1,686	2,555	2,967	3,190	3,328	3,409	3,467	3,497	3,541	3,561	X X X	X X X
3. 1999	X X X	1,757	2,680	3,110	3,387	3,532	3,655	3,714	3,759	3,793	X X X	X X X
4. 2000	X X X	X X X	1,718	2,684	3,118	3,376	3,526	3,617	3,688	3,720	X X X	X X X
5. 2001	X X X	X X X	X X X	1,702	2,627	3,018	3,295	3,404	3,505	3,565	X X X	X X X
6. 2002	X X X	X X X	X X X	X X X	1,660	2,706	3,235	3,622	3,810	3,911	X X X	X X X
7. 2003	X X X	X X X	X X X	X X X	X X X	1,918	2,922	3,415	3,720	3,949	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	1,898	3,078	3,616	3,940	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	1,996	3,236	3,836	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	2,294	3,579	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	2,452	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	1,172	676	480	306	273	336	167	140	82	134
2. 1998	921	364	232	149	76	42	51	36	27	21
3. 1999	X X X	792	358	209	113	64	73	36	36	26
4. 2000	X X X	X X X	723	404	237	151	104	49	74	39
5. 2001	X X X	X X X	X X X	825	429	199	179	85	118	60
6. 2002	X X X	X X X	X X X	X X X	1,554	797	354	251	232	117
7. 2003	X X X	X X X	X X X	X X X	X X X	1,181	570	388	331	256
8. 2004	X X X	X X X	X X X	X X X	X X X	X X X	2,011	1,182	871	406
9. 2005	X X X	X X X	X X X	X X X	X X X	X X X	X X X	2,298	1,184	653
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	2,234	1,237
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	2,281

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

States, Etc.	1 Is Insurer Licensed? (Yes or No)	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
		2 Direct Premiums Written	3 Direct Premiums Earned						
1. Alabama	AL	YES							
2. Alaska	AK	YES							
3. Arizona	AZ	YES	137,675	16,687		(874)	2,698	610	
4. Arkansas	AR	YES	753,689	761,590	43,517	124,447	191,353	3,337	
5. California	CA	YES	470,339	450,585	81,420	(806,729)	139,994	2,082	
6. Colorado	CO	YES							
7. Connecticut	CT	YES	2,794,316	1,669,625	372,615	892,606	565,328	12,372	
8. Delaware	DE	YES	742,740	316,776	4,900	169,547	185,975	3,288	
9. Dist. Columbia	DC	YES	71,592	47,939	258,091	284,924	28,959	317	
10. Florida	FL	YES							
11. Georgia	GA	YES	1,307,626	796,995	286,376	947,793	697,577	5,789	
12. Hawaii	HI	YES							
13. Idaho	ID	YES							
14. Illinois	IL	YES	2,677,374	1,355,818	928,669	862,078	503,558	11,854	
15. Indiana	IN	YES	3,603,709	2,453,509	853,040	1,916,262	1,404,601	15,955	
16. Iowa	IA	YES	567,475	287,604	33,363	97,753	73,106	2,512	
17. Kansas	KS	YES	566,471	387,239	62,971	138,536	98,875	2,508	
18. Kentucky	KY	YES	2,311,727	1,188,092	315,707	506,629	211,084	10,235	
19. Louisiana	LA	YES	6,448,160	7,900,003	2,592,537	3,366,056	5,936,496	28,549	
20. Maine	ME	YES	1,251,911	740,919	374,019	609,017	240,389	5,543	
21. Maryland	MD	YES	2,260,452	1,114,758	337,810	664,459	428,847	10,008	
22. Massachusetts	MA	YES	1,899,782	1,346,711	443,806	(219,495)	833,151	8,411	
23. Michigan	MI	YES	3,237,516	2,131,194	382,605	703,136	440,997	14,334	
24. Minnesota	MN	YES	665,806	427,395	422,004	525,940	114,157	2,948	
25. Mississippi	MS	YES							
26. Missouri	MO	YES	2,298,760	1,406,023	1,821,114	2,655,578	946,066	10,178	
27. Montana	MT	YES							
28. Nebraska	NE	YES	473,398	257,464	125,665	132,435	79,451	2,096	
29. Nevada	NV	YES							
30. New Hampshire	NH	YES	1,454,456	958,026	189,374	1,775,700	1,596,098	6,439	
31. New Jersey	NJ	YES	4,490,036	1,578,158	631,207	(377,992)	1,989,257	19,879	
32. New Mexico	NM	YES							
33. New York	NY	YES	345,718	281,743	881,735	(202,302)	1,095,868	1,531	
34. No. Carolina	NC	YES	1,748,439	866,373	326,093	902,653	586,635	7,741	
35. No. Dakota	ND	YES							
36. Ohio	OH	YES	2,931,381	1,718,560	684,231	1,126,919	476,134	12,978	
37. Oklahoma	OK	YES	1,761,397	1,721,660	439,314	454,295	441,836	7,798	
38. Oregon	OR	YES							
39. Pennsylvania	PA	YES	25,796,786	17,534,306	7,148,256	11,574,213	6,230,853	114,213	
40. Rhode Island	RI	YES	1,765,177	1,526,614	222,302	236,990	368,926	7,815	
41. So. Carolina	SC	YES	1,893,248	901,048	247,373	490,920	257,570	8,382	
42. So. Dakota	SD	YES							
43. Tennessee	TN	YES	2,886,099	1,347,443	763,079	1,461,656	742,716	12,778	
44. Texas	TX	YES	5,682,564	4,491,291	1,209,302	2,065,548	1,231,107	25,159	
45. Utah	UT	YES							
46. Vermont	VT	YES	648,412	423,859	65,434	458,489	485,209	2,871	
47. Virginia	VA	YES	603,502	314,206	22,328	93,407	73,251	2,672	
48. Washington	WA	YES							
49. West Virginia	WV	YES							
50. Wisconsin	WI	YES	9,148,625	7,266,210	3,399,034	5,143,339	2,523,748	40,505	
51. Wyoming	WY	YES							
52. American Samoa	AS	NO							
53. Guam	GU	NO							
54. Puerto Rico	PR	NO							
55. U.S. Virgin Islands	VI	NO							
56. Northern Mariana Islands	MP	NO							
57. Canada	CN	NO							
58. Aggregate other alien	OT	X X X							
59. Totals	(a) 51		95,696,358	65,986,423	25,969,291	38,773,933	31,221,870	423,687	

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

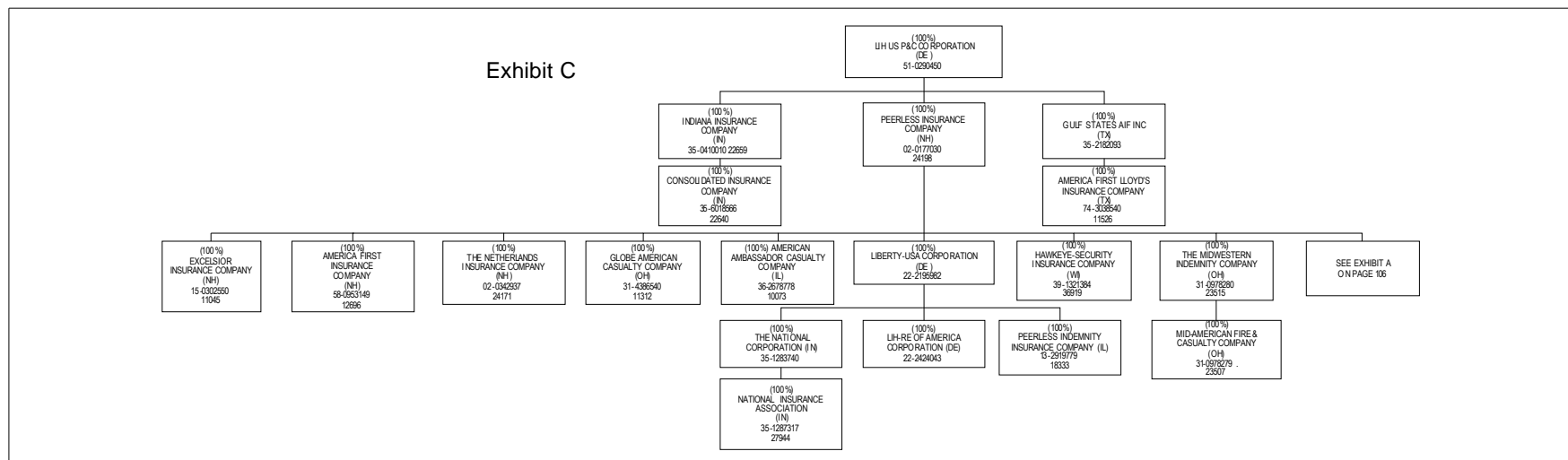
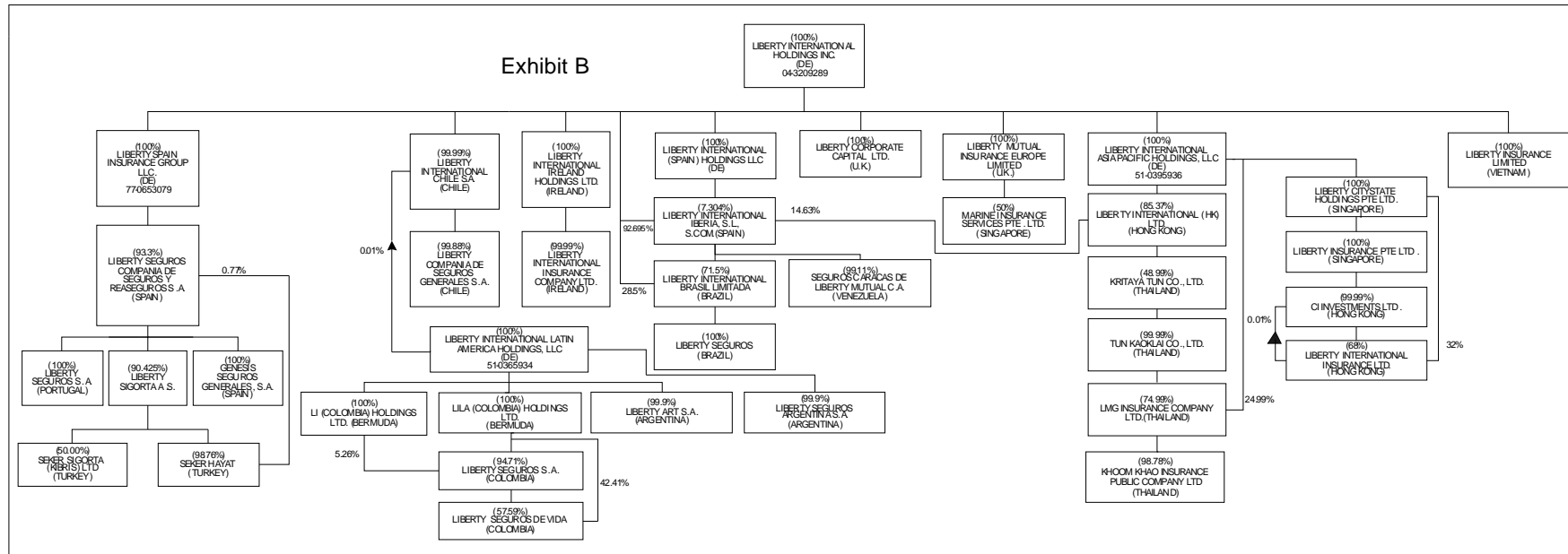
**Explanation of basis of allocation of premiums by states, etc.**

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

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



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



**OVERFLOW PAGE FOR WRITE-INS**

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# 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		