

**ANNUAL STATEMENT**

OF THE

**PEERLESS INSURANCE COMPANY**

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of **KEENE**

in the state of **NEW HAMPSHIRE**

TO THE

**Insurance Department**

OF THE

STATE OF

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

PROPERTY AND CASUALTY

**2007**



24198200720100100

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

NAIC Group Code 0111 0111 NAIC Company Code 24198 Employer's ID Number 02-0177030
Organized under the Laws of New Hampshire, State of Domicile or Port of Entry New Hampshire
Country of Domicile United States of America
Incorporated/Organized: March 7, 1901 Commenced Business: November 23, 1903
Statutory Home Office: 62 Maple Avenue Keene, NH 03431
Main Administrative Office: 62 Maple Avenue Keene, NH 03431 603-352-3221
Mail Address: 175 Berkeley Street Boston, MA 02116
Primary Location of Books and Records: 175 Berkeley Street Boston, MA 02116 617-357-9500
Internet Website Address: www.LibertyMutualAgencyMarkets.com
Statutory Statement Contact: Joanne Connolly 617-357-9500 44393
Joanne.Connolly@LibertyMutual.com 617-574-5955

OFFICERS
Chairman of the Board
Gary Richard Gregg

Table with 2 columns: Name, Title. Row 1: Gary Richard Gregg, President and Chief Executive Officer. Row 2: Edmund Campion Kenealy, Secretary. Row 3: James Francis Dore, Treasurer and Chief Financial Officer.

Vice-Presidents

Table with 4 columns: Name, Title, Name, Title. Row 1: Anthony Alexander Fontanes, EVP and Chief Investment Officer, Joseph Anthony Gilles, Executive Vice President. Row 2: Scott Rhodes Goodby, EVP and Chief Operating Officer.

DIRECTORS OR TRUSTEES

Table with 4 columns: Name, Title, Name, Title. Row 1: James Francis Dore, John Derek Doyle, Joseph Anthony Gilles, Scott Rhodes Goodby. Row 2: Gary Richard Gregg, Christopher Charles Mansfield.

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) Gary Richard Gregg, Edmund Campion Kenealy, James Francis Dore
(Printed Name)
1. 2. 3.
President and Chief Executive Officer, Secretary, Treasurer and Chief Financial Officer
(Title)

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)	3,920,851,486		3,920,851,486	3,718,409,676
2. Stocks (Schedule D):				
2.1 Preferred stocks	93,499,191		93,499,191	96,530,700
2.2 Common stocks	732,092,183	11,727,000	720,365,183	359,091,398
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens	26,821,667		26,821,667	13,128,804
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ 0 encumbrances)	5,373,488		5,373,488	5,804,910
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ (55,470,275) , Schedule E-Part 1), cash equivalents (\$ 67,594,632 Schedule E-Part 2) and short-term investments (\$ 107,916,743 , Schedule DA)	120,041,100		120,041,100	221,765,477
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)	45,145,195		45,145,195	22,853,248
8. Receivables for securities	1,232,126		1,232,126	19,016,599
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	4,945,056,436	11,727,000	4,933,329,436	4,456,600,812
11. Title plants less \$ 0 charged off (for Title insurers only)				
12. Investment income due and accrued	41,647,135		41,647,135	37,537,342
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	129,416,062	5,347,584	124,068,478	171,360,719
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 20,760,498 earned but unbilled premiums)	662,083,697	2,340,097	659,743,600	617,491,263
13.3 Accrued retrospective premiums	7,828,019	998,781	6,829,238	8,148,722
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	69,381,135		69,381,135	151,635,205
14.2 Funds held by or deposited with reinsured companies	6,624,058		6,624,058	6,381,562
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	203,753,000	82,750,400	121,002,600	116,863,710
17. Guaranty funds receivable or on deposit	3,190,323		3,190,323	3,907,373
18. Electronic data processing equipment and software	21,393,118	21,392,838	280	785
19. Furniture and equipment, including health care delivery assets (\$ 0 )	621,114	621,114		
20. Net adjustment in assets and liabilities due to foreign exchange rates				
21. Receivables from parent, subsidiaries and affiliates	36,551,387		36,551,387	115,027,305
22. Health care (\$ 0 ) and other amounts receivable				
23. Aggregate write-ins for other than invested assets	73,270,471	50,635,105	22,635,366	22,942,065
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	6,200,815,955	175,812,919	6,025,003,036	5,707,896,863
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	6,200,815,955	175,812,919	6,025,003,036	5,707,896,863

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	38,143,833	33,557,772	4,586,061	2,063,747
2302. Receivable for administrative services-OneBeacon				9,721,188
2303. OneBeacon Goodwill	17,077,333	17,077,333		
2398. Summary of remaining write-ins for Line 23 from overflow page	18,049,305		18,049,305	11,157,130
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	73,270,471	50,635,105	22,635,366	22,942,065

<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	2,248,032,435	2,081,607,322
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	31,908,412	154,218,208
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	514,461,445	477,618,586
4. Commissions payable, contingent commissions and other similar charges	82,930,074	76,626,543
5. Other expenses (excluding taxes, licenses and fees)	81,241,929	59,312,075
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	50,520,109	40,695,751
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))	72,582,234	20,395,536
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 \$ 508,054,739 and including warranty reserves of \$ 0 )	1,200,138,518	1,121,458,176
10. Advance premium	5,608,491	4,514,291
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders	507,491	1,051,670
12. Ceded reinsurance premiums payable (net of ceding commissions)	79,586,766	76,888,413
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	17,102,095	23,432,494
14. Amounts withheld or retained by company for account of others	1,481,013	935,973
15. Remittances and items not allocated		
16. Provision for reinsurance (Schedule F, Part 7)	6,800,597	22,179,258
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding		38,660
19. Payable to parent, subsidiaries and affiliates	70,107,877	55,751,755
20. Payable for securities	46	60,397,719
21. Liability for amounts held under uninsured plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	91,685,919	211,554,330
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	4,554,695,451	4,488,676,760
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	4,554,695,451	4,488,676,760
27. Aggregate write-ins for special surplus funds		
28. Common capital stock	8,848,635	8,848,635
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes		
32. Gross paid in and contributed surplus	818,034,882	699,537,163
33. Unassigned funds (surplus)	643,589,784	511,000,021
34. Less treasury stock, at cost:		
34.1 14,998 shares common (value included in Line 28 \$ 37,495 )	165,716	165,716
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)	1,470,307,585	1,219,220,103
36. TOTALS (Page 2, Line 26, Col. 3)	6,025,003,036	5,707,896,863

<b>DETAILS OF WRITE-INS</b>		
2301. Other liabilities	24,172,329	15,403,691
2302. Collateral held for securities loaned	66,829,321	195,132,797
2303. Restructure liability - OneBeacon	684,269	1,017,842
2398. Summary of remaining write-ins for Line 23 from overflow page		
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	91,685,919	211,554,330
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)		2,553,852,718	2,430,916,555
DEDUCTIONS			
2. Losses incurred (Part 2, Line 34, Column 7)		1,311,444,309	1,319,590,125
3. Loss expenses incurred (Part 3, Line 25, Column 1)		289,451,721	290,421,779
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)		909,845,966	813,501,296
5. Aggregate write-ins for underwriting deductions			
6. Total underwriting deductions (Lines 2 through 5)		2,510,741,996	2,423,513,200
7. Net income of protected cells			
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)		43,110,722	7,403,355
<b>INVESTMENT INCOME</b>			
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)		224,948,251	679,656,056
10. Net realized capital gains (losses) less capital gains tax of \$ 798,831 (Exhibit of Capital Gains (Losses))		1,483,544	(1,079,700)
11. Net investment gain (loss) (Lines 9 + 10)		226,431,795	678,576,356
<b>OTHER INCOME</b>			
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 43,885 amount charged off \$ 5,268,916 )		(5,225,031)	(3,629,157)
13. Finance and service charges not included in premiums		14,128,537	13,137,824
14. Aggregate write-ins for miscellaneous income		(4,322,563)	(397,520)
15. Total other income (Lines 12 through 14)		4,580,943	9,111,147
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)		274,123,460	695,090,858
17. Dividends to policyholders		6,146,290	6,871,671
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)		267,977,170	688,219,187
19. Federal and foreign income taxes incurred		79,977,829	108,737,255
20. Net income (Line 18 minus Line 19) (to Line 22)		187,999,341	579,481,932
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)		1,219,220,103	1,016,661,929
22. Net income (from Line 20)		187,999,341	579,481,932
23. Net transfers (to) from Protected Cell accounts			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ (11,664,188)		(32,556,720)	(469,385,832)
25. Change in net unrealized foreign exchange capital gain (loss)		41,926	(41,926)
26. Change in net deferred income tax		26,363,813	26,924,201
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)		(60,531,842)	(7,100,521)
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)		15,378,661	(16,004,514)
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		118,497,719	150,000,000
33.2 Transferred to capital (Stock Dividend)			
33.3 Transferred from capital			
34. Net remittances from or (to) Home Office			
35. Dividends to stockholders			(67,370,072)
36. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)			
37. Aggregate write-ins for gains and losses in surplus		(4,105,416)	6,054,906
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)		251,087,482	202,558,174
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)		1,470,307,585	1,219,220,103

<b>DETAILS OF WRITE-INS</b>			
0501.			
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page			
0599. Totals (Lines 0501 through 0503 plus Line 0598) (Line 5 above)			
1401. Other income/(expense)		(4,322,563)	(397,520)
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)		(4,322,563)	(397,520)
3701. Other changes in surplus		(4,105,416)	6,054,906
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page			
3799. Totals (Lines 3701 through 3703 plus Line 3798) (Line 37 above)		(4,105,416)	6,054,906

## CASH FLOW

	1	2
	Current Year	Prior Year
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance	2,640,708,959	2,552,348,328
2. Net investment income	221,930,752	666,651,763
3. Miscellaneous income	(3,884,134)	3,531,731
4. Total (Lines 1 through 3)	2,858,755,577	3,222,531,822
5. Benefit and loss related payments	1,185,113,577	681,706,537
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	1,124,424,265	956,273,723
8. Dividends paid to policyholders	6,690,469	5,820,001
9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)	28,589,962	142,339,013
10. Total (Lines 5 through 9)	2,344,818,273	1,786,139,274
11. Net cash from operations (Line 4 minus Line 10)	513,937,304	1,436,392,548
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	419,867,433	483,341,899
12.2 Stocks	34,530,053	4,275,217
12.3 Mortgage loans	907,278	
12.4 Real estate		
12.5 Other invested assets	6,609,490	14,353,918
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	4,779	10,594
12.7 Miscellaneous proceeds		37,291,701
12.8 Total investment proceeds (Lines 12.1 to 12.7)	461,919,033	539,273,329
13. Cost of investments acquired (long-term only):		
13.1 Bonds	629,297,348	1,629,222,695
13.2 Stocks	443,517,029	227,944,754
13.3 Mortgage loans	14,609,809	13,128,804
13.4 Real estate	296,412	44,109
13.5 Other invested assets	25,123,972	31,786,219
13.6 Miscellaneous applications	42,611,135	
13.7 Total investments acquired (Lines 13.1 to 13.6)	1,155,455,705	1,902,126,581
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)	(693,536,672)	(1,362,853,252)
<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	118,497,719	150,000,000
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders		67,370,072
16.6 Other cash provided (applied)	(40,622,728)	(109,871,420)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	77,874,991	(27,241,492)
<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)	(101,724,377)	46,297,804
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	221,765,477	175,467,673
19.2 End of year (Line 18 plus Line 19.1)	120,041,100	221,765,477

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

20.0001.		
20.0002.		
20.0003.		

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 1- PREMIUMS EARNED**

Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire	19,931,661	12,584,345	12,429,332	20,086,674
2. Allied lines	21,534,260	10,858,679	11,006,280	21,386,659
3. Farmowners multiple peril	26,122,892	11,483,140	13,334,235	24,271,797
4. Homeowners multiple peril	209,843,148	101,335,251	115,029,307	196,149,092
5. Commercial multiple peril	805,261,161	371,453,681	384,313,973	792,400,869
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine	82,329,171	32,962,110	35,185,373	80,105,908
10. Financial guaranty				
11.1 Medical malpractice - occurrence	(4,610)		(2,922)	(1,688)
11.2 Medical malpractice - claims-made				
12. Earthquake	10,029,843	4,636,810	5,030,948	9,635,705
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health				
16. Workers' compensation	528,791,660	137,296,845	154,177,848	511,910,657
17.1 Other liability - occurrence	145,971,653	65,837,274	69,719,298	142,089,629
17.2 Other liability - claims-made				
18.1 Products liability - occurrence	3,926,353	1,689,233	1,975,911	3,639,675
18.2 Products liability - claims-made				
19.1, 19.2 Private passenger auto liability	203,758,507	81,439,336	99,839,375	185,358,468
19.3, 19.4 Commercial auto liability	328,407,278	156,914,915	155,874,472	329,447,721
21. Auto physical damage	247,009,499	108,614,592	120,267,864	235,356,227
22. Aircraft (all perils)				
23. Fidelity	81,818	117,069	92,537	106,350
24. Surety	721,445	741,064	410,300	1,052,209
26. Burglary and theft	315,960	143,030	143,752	315,238
27. Boiler and machinery	595,257	360,130	413,863	541,524
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	2,634,626,956	1,098,467,504	1,179,241,746	2,553,852,714

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	12,429,332				12,429,332
2. Allied lines	11,006,280				11,006,280
3. Farmowners multiple peril	13,334,235				13,334,235
4. Homeowners multiple peril	115,029,307				115,029,307
5. Commercial multiple peril	389,695,367		(5,421,346)	39,952	384,313,973
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	35,185,373				35,185,373
10. Financial guaranty					
11.1 Medical malpractice - occurrence	(2,922)				(2,922)
11.2 Medical malpractice - claims-made					
12. Earthquake	5,030,948				5,030,948
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	165,884,926		(11,570,802)	(136,276)	154,177,848
17.1 Other liability - occurrence	73,527,599		(3,768,349)	(39,952)	69,719,298
17.2 Other liability - claims-made					
18.1 Products liability - occurrence	1,975,911				1,975,911
18.2 Products liability - claims-made					
19.1, 19.2 Private passenger auto liability	99,839,375				99,839,375
19.3, 19.4 Commercial auto liability	155,874,472				155,874,472
21. Auto physical damage	120,267,864				120,267,864
22. Aircraft (all perils)					
23. Fidelity	812	91,725			92,537
24. Surety	322,513	87,787			410,300
26. Burglary and theft	143,752				143,752
27. Boiler and machinery	413,863				413,863
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	1,199,959,007	179,512	(20,760,497)	(136,276)	1,179,241,746
35. Accrued retrospective premiums based on experience					136,276
36. Earned but unbilled premiums					20,760,498
37. Balance (Sum of Line 34 through 36)					1,200,138,520

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

(a) State here basis of computation used in each case Daily pro rata



**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 1B - PREMIUMS WRITTEN**

Line of Business	1 Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
		2 From Affiliates	3 From Non- Affiliates	4 To Affiliates	5 To Non- Affiliates	
1. Fire	19,339,369	15,060,988	807,546	14,937,703	338,539	19,931,661
2. Allied lines	15,697,363	15,687,469	344,389	8,773,935	1,421,026	21,534,260
3. Farmowners multiple peril	6,446,545	30,843,395		11,091,316	75,732	26,122,892
4. Homeowners multiple peril	132,130,756	175,298,663	1,080,018	98,415,395	250,894	209,843,148
5. Commercial multiple peril	291,910,274	897,371,449	(5,993)	351,540,646	32,473,923	805,261,161
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	55,987,332	61,183,085		33,408,734	1,432,512	82,329,171
10. Financial guaranty						
11.1 Medical malpractice - occurrence				(1,890)	6,500	(4,610)
11.2 Medical malpractice - claims-made						
12. Earthquake	1,832,423	12,955,782	7,325	4,109,001	656,686	10,029,843
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	93,551,665	631,799,723	26,445,220	224,116,403	(1,111,455)	528,791,660
17.1 Other liability - occurrence	73,824,367	138,266,585	24,745	61,735,354	4,408,690	145,971,653
17.2 Other liability - claims-made						
18.1 Products liability - occurrence	1,654,181	3,903,379		1,631,181	26	3,926,353
18.2 Products liability - claims-made						
19.1, 19.2 Private passenger auto liability	106,177,447	179,734,861	2,026,085	83,608,468	571,418	203,758,507
19.3, 19.4 Commercial auto liability	120,816,538	339,799,929	3,863,032	134,785,722	1,286,499	328,407,278
21. Auto physical damage	122,871,355	231,238,342	442,383	106,903,360	639,221	247,009,499
22. Aircraft (all perils)						
23. Fidelity	110,654	4,699		33,535		81,818
24. Surety	965,180	51,943		295,678		721,445
26. Burglary and theft	83,081	364,154	1,829	129,437	3,667	315,960
27. Boiler and machinery	590,837	1,213,550		243,960	965,170	595,257
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	1,043,989,367	2,734,777,996	35,036,579	1,135,757,938	43,419,048	2,634,626,956

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	5,861,827	19,768,636	12,321,936	13,308,527	4,880,197	4,874,394	13,314,330	66.284
2. Allied lines	4,710,766	7,527,167	4,429,005	7,808,928	3,223,010	2,703,611	8,328,327	38.942
3. Farmowners multiple peril	1,940,841	16,953,357	5,586,205	13,307,993	6,414,928	5,112,089	14,610,832	60.197
4. Homeowners multiple peril	56,525,352	86,577,035	44,063,536	99,038,851	43,802,943	43,570,581	99,271,213	50.610
5. Commercial multiple peril	108,034,949	391,364,282	173,003,729	326,395,502	584,005,238	537,815,713	372,585,027	47.020
6. Mortgage guaranty								
8. Ocean marine		7,220	2,099	5,121		14,465	(9,344)	
9. Inland marine	16,273,679	18,263,404	11,014,711	23,522,372	6,759,116	7,911,736	22,369,752	27.925
10. Financial guaranty								
11.1 Medical malpractice - occurrence								
11.2 Medical malpractice - claims - made								
12. Earthquake	1,807	5,168	2,028	4,947	1,127	4,079	1,995	0.021
13. Group accident and health								
14. Credit accident and health (group and individual)								
15. Other accident and health								
16. Workers' compensation	48,979,962	308,058,833	118,628,943	238,409,852	911,059,918	831,658,628	317,811,142	62.083
17.1 Other liability - occurrence	14,119,040	49,238,501	32,613,147	30,744,394	208,254,926	161,962,682	77,036,638	54.217
17.2 Other liability - claims - made								
18.1 Products liability - occurrence	35,872	425,621	134,156	327,337	5,193,776	3,672,080	1,849,033	50.802
18.2 Products liability - claims - made								
19.1, 19.2 Private passenger auto liability	65,985,622	115,898,197	56,578,093	125,305,726	155,934,101	171,610,780	109,629,047	59.144
19.3, 19.4 Commercial auto liability	48,015,114	160,379,808	64,156,320	144,238,602	294,455,517	298,573,862	140,120,257	42.532
21. Auto physical damage	53,613,110	119,069,202	50,442,624	122,239,688	10,059,298	6,129,351	126,169,635	53.608
22. Aircraft (all perils)								
23. Fidelity	(4,999)	(383)	(1,565)	(3,817)	59,809	159,259	(103,267)	(97.100)
24. Surety	201,699	(6,930)	(50,068)	244,837	13,351,106	1,782,404	11,813,539	1,122.736
26. Burglary and theft	3,094	20,015	6,718	16,391	8,381	17,267	7,505	2.381
27. Boiler and machinery	28,228	202,563	230,791		27,361	113,713	(86,352)	(15.946)
28. Credit								
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X							
31. Reinsurance-Nonproportional Assumed Liability	X X X	146,543	42,600	103,943	541,685	3,920,627	(3,274,999)	
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X							
33. Aggregate write-ins for other lines of business								
34. TOTALS	424,325,963	1,293,898,239	573,205,008	1,145,019,194	2,248,032,437	2,081,607,321	1,311,444,310	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	2,943,435	3,979,792	2,425,603	4,497,624	298,812	240,555	156,794	4,880,197	972,395
2. Allied lines	2,370,276	2,204,584	1,481,877	3,092,983	199,258	187,803	257,034	3,223,010	451,639
3. Farmowners multiple peril	2,669,618	5,196,611	2,303,191	5,563,038	294,306	906,722	349,139	6,414,927	1,058,494
4. Homeowners multiple peril	23,219,151	27,796,134	15,780,336	35,234,949	5,482,711	6,717,682	3,632,400	43,802,942	9,255,538
5. Commercial multiple peril	127,057,966	376,571,048	156,209,474	347,419,540	78,383,796	278,769,140	120,567,235	584,005,241	266,689,067
6. Mortgage guaranty									
8. Ocean marine									
9. Inland marine	3,121,364	4,760,778	2,307,736	5,574,406	708,385	989,747	513,422	6,759,116	1,314,140
10. Financial guaranty									
11.1 Medical malpractice - occurrence									
11.2 Medical malpractice - claims - made									
12. Earthquake	895	694	462	1,127				1,127	11,604
13. Group accident and health								(a)	
14. Credit accident and health (group and individual)								(a)	
15. Other accident and health									
16. Workers' compensation	79,595,118	725,523,847	268,796,328	536,322,637	74,642,451	546,903,276	246,808,445	911,059,919	114,159,710
17.1 Other liability - occurrence	26,164,202	93,900,978	50,043,810	70,021,370	63,794,067	144,072,673	69,633,184	208,254,926	35,831,204
17.2 Other liability - claims - made									
18.1 Products liability - occurrence	307,769	2,376,130	780,210	1,903,689	1,096,609	3,685,022	1,491,544	5,193,776	1,010,782
18.2 Products liability - claims - made									
19.1, 19.2 Private passenger auto liability	64,801,549	100,168,841	49,728,506	115,241,884	27,612,801	34,716,758	21,637,341	155,934,102	30,196,108
19.3, 19.4 Commercial auto liability	61,252,379	184,718,920	72,951,251	173,020,048	52,004,748	132,338,650	62,907,930	294,455,516	51,961,509
21. Auto physical damage	4,159,223	10,298,476	4,411,789	10,045,910		37,834	24,447	10,059,297	1,544,279
22. Aircraft (all perils)									
23. Fidelity					81,741	2,646	24,581	59,806	4,802
24. Surety	17,620,463	28,915	5,561,035	12,088,343	1,623,945	656,348	1,017,531	13,351,105	(22,602)
26. Burglary and theft	605	65	195	475	974	10,173	3,240	8,382	10,755
27. Boiler and machinery	4,299	89,299	93,598		12,704	36,531	21,874	27,361	12,019
28. Credit									
29. International									
30. Reinsurance-Nonproportional Assumed Property	X X X				X X X				
31. Reinsurance-Nonproportional Assumed Liability	X X X	763,689	222,004	541,685	X X X			541,685	
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
33. Aggregate write-ins for other lines of business									
34. TOTALS	415,288,312	1,538,378,801	633,097,405	1,320,569,708	306,237,308	1,150,271,560	529,046,141	2,248,032,435	514,461,443

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

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

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 3 - EXPENSES

	1	2	3	4
	Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1. Claim adjustment services:				
1.1 Direct	39,027,759			39,027,759
1.2 Reinsurance assumed	115,867,070			115,867,070
1.3 Reinsurance ceded	49,427,988			49,427,988
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	105,466,841			105,466,841
2. Commission and brokerage:				
2.1 Direct, excluding contingent		160,536,580		160,536,580
2.2 Reinsurance assumed, excluding contingent		355,058,423		355,058,423
2.3 Reinsurance ceded, excluding contingent		154,294,522		154,294,522
2.4 Contingent-direct		97,077,226		97,077,226
2.5 Contingent-reinsurance assumed		8,989,319		8,989,319
2.6 Contingent-reinsurance ceded		32,239,344		32,239,344
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)		435,127,682		435,127,682
3. Allowances to manager and agents		751,582		751,582
4. Advertising	3,207,908	13,685,175	6,876	16,899,959
5. Boards, bureaus and associations	364,522	7,219,249	76	7,583,847
6. Surveys and underwriting reports	4	5,331,595	1,354	5,332,953
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries	91,112,833	201,289,576	1,043,320	293,445,729
8.2 Payroll taxes	5,655,095	15,860,020	48,830	21,563,945
9. Employee relations and welfare	20,204,314	57,984,549	63,709	78,252,572
10. Insurance	15,463,905	1,021,844	9,913	16,495,662
11. Directors' fees	303	1,953		2,256
12. Travel and travel items	5,109,818	15,211,582	17,279	20,338,679
13. Rent and rent items	7,718,401	23,512,312	14,588	31,245,301
14. Equipment	4,140,874	14,392,518	18,610	18,552,002
15. Cost or depreciation of EDP equipment and software	4,547,691	6,482,356	5,599	11,035,646
16. Printing and stationery	1,245,580	3,943,137	2,582	5,191,299
17. Postage, telephone and telegraph, exchange and express	3,140,827	11,174,249	5,001	14,320,077
18. Legal and auditing	1,200,754	3,763,480	139,924	5,104,158
19. Totals (Lines 3 to 18)	163,112,829	381,625,177	1,377,661	546,115,667
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 733,270		63,448,554		63,448,554
20.2 Insurance department licenses and fees		1,706,446		1,706,446
20.3 Gross guaranty association assessments		(498,093)		(498,093)
20.4 All other (excluding federal and foreign income and real estate)		2,933,837		2,933,837
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		67,590,744		67,590,744
21. Real estate expenses			1,323,313	1,323,313
22. Real estate taxes			322,233	322,233
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	20,872,049	25,502,364	97,447	46,471,860
25. Total expenses incurred	289,451,719	909,845,967	3,120,654	(a) 1,202,418,340
26. Less unpaid expenses-current year	514,461,445	214,595,505	96,607	729,153,557
27. Add unpaid expenses-prior year	477,618,586	176,567,663	66,706	654,252,955
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)	252,608,860	871,818,125	3,090,753	1,127,517,738

DETAILS OF WRITE-INS				
2401. Change in unallocated expense reserves	12,958,027			12,958,027
2402. Other expenses	7,914,022	25,502,364	97,447	33,513,833
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	20,872,049	25,502,364	97,447	46,471,860

(a) Includes management fees of \$ 1,474,620 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) 28,009,569	26,128,968
1.1 Bonds exempt from U.S. tax	(a) 47,458,771	54,831,186
1.2 Other bonds (unaffiliated)	(a) 104,344,531	104,387,174
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b) 6,325,297	6,268,282
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	11,507,757	11,546,250
2.21 Common stocks of affiliates	13,372,000	12,572,000
3. Mortgage loans	(c) 1,097,141	1,097,141
4. Real estate	(d) 2,603,412	2,603,412
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 9,509,441	8,903,298
7. Derivative instruments	(f)	
8. Other invested assets	849,022	849,022
9. Aggregate write-ins for investment income	656,520	656,520
10. Total gross investment income	225,733,461	229,843,253

11. Investment expenses		(g) 3,120,655
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h) 1,046,514
14. Depreciation on real estate and other invested assets		(i) 727,833
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		4,895,002
17. Net investment income (Line 10 minus Line 16)		224,948,251

DETAILS OF WRITE-INS		
0901. Miscellaneous Income/(Expense)	656,520	656,520
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)	656,520	656,520
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 \$ 3,976,136 accrual of discount less \$ 4,308,748 amortization of premium and less \$ 2,114,312 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 \$ 39,835 paid for accrued interest on purchases.
- (d) Includes \$ 2,603,412 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 1,926,135 accrual of discount less \$ 16,402 amortization of premium and less \$ 310,160 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 \$ 727,833 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	(1,406,337)		(1,406,337)		
1.1 Bonds exempt from U.S. tax					
1.2 Other bonds (unaffiliated)	(53,929)		(53,929)	(5,237,153)	41,926
1.3 Bonds of affiliates					
2.1 Preferred stocks (unaffiliated)	99,300		99,300	(24,423,685)	
2.11 Preferred stocks of affiliates					
2.2 Common stocks (unaffiliated)	1,715,440		1,715,440	(5,565,690)	
2.21 Common stocks of affiliates				(10,843,064)	
3. Mortgage loans				(9,668)	
4. Real estate					
5. Contract loans					
6. Cash, cash equivalents and short-term investments	4,779		4,779		
7. Derivative instruments					
8. Other invested assets	2,213,705	(290,583)	1,923,122	1,858,352	
9. Aggregate write-ins for capital gains (losses)					
10. Total capital gains (losses)	2,572,958	(290,583)	2,282,375	(44,220,908)	41,926

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

**EXHIBIT OF NONADMITTED ASSETS**

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks	11,727,000		(11,727,000)
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)	11,727,000		(11,727,000)
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	5,347,584	3,593,548	(1,754,036)
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,340,097	2,211,460	(128,637)
13.3 Accrued retrospective premiums	998,781	905,413	(93,368)
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	82,750,400	48,861,290	(33,889,110)
17. Guaranty funds receivable or on deposit			
18. Electronic data processing equipment and software	21,392,838	35,032,323	13,639,485
19. Furniture and equipment, including health care delivery assets	621,114	74,601	(546,513)
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	50,635,105	24,602,442	(26,032,663)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	175,812,919	115,281,077	(60,531,842)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	175,812,919	115,281,077	(60,531,842)

<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	33,557,772	3,070,157	(30,487,615)
2302. OneBeacon Goodwill	17,077,333	21,532,285	4,454,952
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page			
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	50,635,105	24,602,442	(26,032,663)

## 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 State of New Hampshire, the accompanying financial statements of Peerless 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, except that investments in stocks of subsidiaries, controlled and affiliated ("SCA") companies are carried according to Note 1 C(7).
4. Preferred stocks are carried at cost or market as specified by the SVO Manual.
5. Mortgage loans are carried at unpaid principal balances less impairments as specified by the SVO Manual.
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 carries its investments in SCA companies in accordance with SSAP No. 97, *Investment in Subsidiaries Controlled Entities and Affiliates*, and the SVO Manual. Schedule D Part 6-Section 1 illustrates the valuation method used for each SCA company.
8. Investments in joint ventures, partnerships, and limited liability companies are carried in accordance with SSAP No. 48, *Joint Ventures, Partnerships, and Limited Liability Companies*, and the SVO Manual.
9. 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. On August 24, 2007, the Company and certain affiliates acquired all of the issued and outstanding voting securities of Ohio Casualty Corporation a holding company, which is the upstream parent of six property casualty insurance companies. The Company holds an 8% ownership interest in Ohio Casualty Corporation, at a cost of \$222,756,814.

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**NOTES TO FINANCIAL STATEMENTS**


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Statutory Purchase Method:

Acquired Company	Date of Acquisition	% Ownership	Cost	Unamortized Goodwill December 31, 2007	Goodwill Amortization December 31, 2007
Ohio Casualty Corporation	August 24, 2007	8%	\$222,756,814	\$113,877,062	\$4,191,431

**B. Statutory Mergers**

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

**C. Impairment Loss**

Not applicable

**Note 4- Discontinued Operations**

The Company has no discontinued operations to report.

**Note 5- Investments****A. Mortgage Loans, including Mezzanine Real Estate Loans**

During 2007, the Company participated in direct investment in commercial mortgage loans using an experienced external manager, StanCorp Mortgage Investors.

- (1) The maximum and minimum lending rates for mortgage loans during 2007 were 7.375% and 4.75% respectively.
- (2) As of December 31, 2007 the Company held commercial loans in good standing with an outstanding principal balance of \$26,831,334.
- (3) The maximum loan to value of any loan written during 2007 was 92%.
- (4) No loans had interest more than 180 days past due.
- (5) There were no taxes, assessments or any amounts advanced and not included in the mortgage loan.
- (6) Total recorded investment in impaired loans as of December 31, 2007 was \$20,472, of which, there is a related allowance for credit losses of \$9,668.
- (7) Impaired loans, amounting to \$10,804, have no related allowance for credit losses.
- (8) The average recorded investment in impaired loans during 2007 was \$9,003.
- (9) Interest income of \$917, was recognized on a cash basis, during the period the loan was impaired.
- (10) Refer to 5,A,9
- (11) There have been no changes to the allowance for credit losses since the allowance was established in 2007.

**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**

1. The Company did not incur any impairments on real estate during the year.
2. The Company does not engage in retail land sale operations.

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

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



## NOTES TO FINANCIAL STATEMENTS

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

- A. The Company has no investments in joint ventures, partnerships, or limited liability companies that exceed 10% of its admitted assets.
- B. The company invests in limited partnerships that are reported in accordance with SSAP No. 48. These limited partnerships are valued by the equity method using traditional private equity valuation measures. Interim poor performance which indicates a probable inability to recover the carrying amount of the asset leads to impairment losses being recognized by management. The Company realized impairment losses of \$290,583 during the year.

### Note 7- Investment Income

- A. Accrued Investment Income

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

- B. Amounts Nonadmitted

No amounts were excluded as of December 31, 2007.

### Note 8- Derivative Instruments

The Company's investment activities do not include derivatives. However, the Company may acquire derivatives as additions to bond, common stock, or preferred stock investments. These derivatives would be 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	224,589,000	210,489,000	14,100,000
Total of deferred tax liabilities	(20,836,000)	(44,764,000)	23,928,000
Net deferred tax asset (liability)	203,753,000	165,725,000	38,028,000
Net deferred tax asset non-admitted	(82,750,400)	(48,861,290)	(33,889,110)
Net admitted deferred tax asset (liability)	121,002,600	116,863,710	4,138,890

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

	2007	2006
Federal tax on operations	79,977,829	108,737,255
Net operating loss benefit	0	0
Foreign tax on operations	0	0
Income tax incurred on operations	79,977,829	108,737,255
Tax on capital (losses) gains	798,831	(576,802)
Total income tax incurred	80,776,660	108,160,453

The Company's deferred tax assets and liabilities result primarily from discounting of unpaid loss and LAE reserves, limits on unearned premium reserve deductions, fixed asset depreciation differences, unrealized gains, tax deductible goodwill and statutory non-admitted assets.

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

	2007
Change in net deferred income tax (without unrealized gain or loss)	26,363,813
Tax effect of unrealized (gains) losses	11,664,187
Total change in net deferred income tax	38,028,000

- D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest, excludible dividend income, and goodwill, revisions to prior year estimates, statutory non-admitted assets and partnership income.
- E. The amount of Federal income taxes paid and available for recoupment in the event of future losses is \$92,887,000 from the current year and \$74,401,000 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.  
Ambco Capital Corporation

Liberty Mutual Group Inc.  
Liberty Mutual Holding Company, Inc.

## NOTES TO FINANCIAL STATEMENTS

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
Liberty Insurance Company of America	The Midwestern Indemnity Company
Liberty Insurance Corporation	The National Corporation
Liberty Insurance Holdings, Inc.	The Netherlands Insurance Company
Liberty Insurance Underwriters, Inc.	Wausau Service Corporation
Liberty Life Assurance Company of Boston	Wausau Signature Agency, Inc.
Liberty Life Holdings, Inc.	Wausau Business Insurance Company
Liberty Lloyds of Texas Insurance Company	Wausau General Insurance Company
Liberty Management Services, Inc.	Wausau Underwriters Insurance Company
Liberty Mexico Holdings, Inc.	West American Insurance Company *
Liberty Mutual Fire Insurance Company	

\* This company joined the consolidated group in 2007 and its activity from the date it joined the group is included in the consolidated return.

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

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

- A. The Company is a wholly owned subsidiary of LIH US P&C Corporation, an insurance holding company incorporated in Delaware. LIH US P&C Corporation is wholly owned by Liberty Insurance Holdings, Inc., an insurance holding company incorporated in Delaware. Liberty 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 between the Company and its affiliates are described in Schedule Y Part 2.

During 2007, the Company had the following capital transactions with its subsidiaries.

1. Received capital contributions of \$118,497,719 from its parent, LIH US P&C Corporation.
  2. Contributed capital to its subsidiaries in the amount of \$6,700,000.
- Received an ordinary dividend from a non-insurance subsidiary in the amount of \$12,572,000.

- C. Refer to Note 25.

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## NOTES TO FINANCIAL STATEMENTS

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- D. At December 31, 2007, the Company reported \$33,556,490 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 an 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, effective January 1, 1999, with a number of 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 also entered into service agreements with Hawkeye-Security Insurance Company (HSIC) and National Corporation in 1999. Under those agreements the Company is allowed to perform 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. These service agreements terminated December 31, 2007.

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 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.

Refer to Note 25 for information regarding the Amended and Restated Reinsurance Pooling Agreement.

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

The Company entered into a management agreement, effective April 1, 2002, with Liberty Mutual Mid-Atlantic Insurance Company (LMMIAIC), to provide services related to common management functions including, but not limited to, coordinating marketing and advertising, actuarial support, and accounting, as well as consulting and other services as the parties may request.

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

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 \$150,000,000 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 SCA companies greater than 10% of its admitted assets.
- J. The Company did not recognize any impairment write down for its SCA companies during the statement period.
- K. The Company does not hold investments in foreign subsidiaries.
- L. Investments in downstream non-insurance holding companies

The Company did not utilize the look-through approach for the valuation of its downstream non-insurance holding companies.

### **Note 11- Debt**

The company entered into a short term borrowing arrangement on June 15, 2007. The principal amount borrowed was \$80,000,000 at a rate of 5.85%. The loan was paid off on December 14, 2007. Interest paid on this loan in 2007 was \$1,044,349.

### **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 service agreements as described in Note 10 F.

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## NOTES TO FINANCIAL STATEMENTS

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

1. Common Stock

The Company has 5,000,000 shares authorized, and 3,524,456 shares issued and outstanding as of December 31, 2007. All shares have a stated par value of \$2.50.

2. Preferred Stock

The Company has 113,043 shares authorized, but no shares are issued and outstanding as of December 31, 2007. All shares have a stated par value of \$2.50.

3. Dividend Restrictions

The Company has no dividend restrictions.

4. The maximum amount of dividends which can be paid by New Hampshire-domiciled insurance companies to shareholders without prior approval of the Insurance Commissioner is 10% of policyholder surplus less any dividends paid in the preceding twelve months. The maximum dividend payout which may be made without prior approval in 2008 is \$147,030,759.

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 \$(390,647,253).

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 funds 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 \$15,875,854 that is offset by future premium tax credits of \$3,190,323. 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.

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

## NOTES TO FINANCIAL STATEMENTS

### D. Claims related extra contractual obligations and bad faith losses stemming from lawsuits

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

	Direct
Claims related ECO and bad faith losses paid during the reporting period	\$ 45,000

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

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

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

( f ) Per Claim  ( g ) Per Claimant

### E. All other Contingencies

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

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

### **Note 15- Leases**

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

Year(s)	Operating Lease Arrangements
2008	\$9,327,161
2009	8,353,811
2010	7,104,539
2011	5,465,881
2012	5,204,713
2013 & thereafter	12,907,282
Total	\$48,363,387

#### 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. 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 \$145,951,150 with corresponding collateral value of \$153,964,814 of which \$66,829,320 represents cash collateral.

#### C. Wash Sales

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

## NOTES TO FINANCIAL STATEMENTS

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

- A. Administrative Services Only (ASO) Plans  
Not applicable
- B. Administrative Services Contract (ASC) Plans  
Not applicable
- C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts  
Not applicable

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

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

### **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 \$292,243,681 and \$300,418,893 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 currently owns the following securities meeting the NAIC definition of "Hybrid Securities" per SVO report 9B.

<u>CUSIP</u>	<u>Issuer</u>	<u>Description</u>	<u>Book/Adjusted Carrying Value</u>
05563RAA6	Bank of NY Capital	Redeemable Preferred	1,031,346
065912AA5	Bank America Instit-B	Redeemable Preferred	564,420

- I. 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 inter-company Reinsurance Agreement, as described in Note 25, the following are the unsecured reinsurance recoverables of an individual reinsurer which exceed 3% of policyholders surplus.

<u>Reinsurer</u>	<u>NAIC Co.</u>	<u>Fed ID #</u>	<u>Recoverable Amount</u>
Swiss Reinsurance America Corporation	25364	13-1675535	\$72,390,000
OneBeacon Insurance Company	21970	23-1502700	\$44,142,000

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

## NOTES TO FINANCIAL STATEMENTS

### C. Reinsurance Assumed & Ceded

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

	Assumed Reinsurance		Ceded Reinsurance		Net Reinsurance	
	UEP	Commission Equity	UEP	Commission Equity	UEP	Commission Equity
Affiliates	\$1,192,958,518	\$121,541,396	\$491,865,595	\$35,399,807	\$701,092,923	\$86,141,589
All Other	10,965,326	3,941,694	16,189,144	3,109,786	(5,223,818)	831,908
Total	<u>\$1,203,923,844</u>	<u>\$125,483,090</u>	<u>\$508,054,739</u>	<u>\$38,509,593</u>	<u>\$695,869,105</u>	<u>\$86,973,497</u>

Direct unearned premium reserve \$504,269,413

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	\$97,908,658
Assumed	9,844,000
Ceded	(31,323,698)
Net	<u>\$76,428,960</u>

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

- D. During the current year, the Company wrote off reinsurance balances of \$1,742,095. This amount is shown below by Income Statement classification and by reinsurer.

Income Statement Classification	Amount
Losses Incurred	
Loss Adjustment Expenses Incurred	
Premiums Earned	
Other Expenses	\$1,742,095
Total	\$1,742,095
Reinsurer	Amount
Copenhagen Reinsurance Company (UK) Ltd.	\$54,278
General Reinsurance Corporation	\$652,939
Guardian Royal Exchange	\$69,696
Hannover Ruckversicherungs-Aktiengesell	\$151,633
Lloyds of London #0183	\$17,105
Lloyds of London #0219	\$34,101
Lloyds of London #0227	\$34,748
Lloyds of London #2020	\$125,575
Markel Intl Insurance Co. Ltd.	\$57,631
National Reinsurance Corporation	\$107,702
QBE Insurance (Europe) Ltd.	\$436,687
Total	\$1,742,095

- E. The Company did not commute any reinsurance treaties in the current year.
- F. The Company does not have any retroactive reinsurance agreements.
- G. There are no contracts recorded as deposit accounting.

### **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	\$7,828,019
b. Less: Non-admitted amount	998,781
c. Admitted amount	<u>\$6,829,238</u>

## NOTES TO FINANCIAL STATEMENTS

### 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%	
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



## NOTES TO FINANCIAL STATEMENTS

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 (fka Merchants & Business Men's Mutual 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
			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 \$39,198,259 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 \$39,198,259 as of December 31, 2007.
- B. Not applicable

### **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.

## NOTES TO FINANCIAL STATEMENTS

### 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 include \$935,979,377 are carried at a discounted value of \$911,059,918 representing a discount of \$24,919,459.

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

### Note 32 - Asbestos/Environmental Reserves

The Company has exposure to asbestos and environmental claims which emanate principally from general liability policies written prior to the mid-1980's. In establishing the Company's asbestos and environmental reserves, the Company estimates case basis reserves for anticipated losses and bulk reserves for loss adjustment expenses and incurred but not reported losses. The Company maintained casualty excess of loss reinsurance during the relevant periods. The reserves are reported 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 insured's with potential exposure, (vi) the cost to resolve claims, and (vii) the collectibility of reinsurance.

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

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

#### 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	10,787,197	12,228,236	12,828,614	12,774,965	14,153,401
Incurred losses and LAE	2,439,597	2,292,831	1,710,512	2,344,726	(5,357,418)
Calendar year payments	998,558	1,692,453	1,764,161	966,290	865,941
Ending Reserves	<u>12,228,236</u>	<u>12,828,614</u>	<u>12,774,965</u>	<u>14,153,400</u>	<u>7,930,042</u>

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**NOTES TO FINANCIAL STATEMENTS**


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<b>Assumed Reinsurance Basis</b>					
Beginning Reserves	948,706	672,870	213,500	213,500	213,500
Incurred losses and LAE	-	-	-	-	-
Calendar year payments	275,836	459,370	-	-	-
Ending Reserves	<u>672,870</u>	<u>213,500</u>	<u>213,500</u>	<u>213,500</u>	<u>213,500</u>

<b>Net of Ceded Reinsurance Basis</b>					
Beginning Reserves	8,976,048	11,158,585	10,195,653	9,806,632	11,185,068
Incurred losses and LAE	3,456,932	845,986	1,375,140	1,919,146	(4,341,652)
Calendar year payments	1,274,395	1,808,918	1,764,161	540,710	865,941
Ending Reserves	<u>11,158,585</u>	<u>10,195,653</u>	<u>9,806,632</u>	<u>11,185,068</u>	<u>5,977,475</u>

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

Direct Basis		5,092,322
Assumed Reinsurance Basis		213,500
Net of Ceded Reinsurance Basis		3,139,740

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

Direct Basis		2,186,558
Assumed Reinsurance Basis		-
Net of Ceded Reinsurance Basis		1,838,682

<b>Environmental:</b>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Direct Basis</b>					
Beginning Reserves	9,385,472	9,214,558	9,900,307	12,437,642	9,161,198
Incurred losses and LAE	527,401	2,120,307	6,041,432	2,091,455	36,185,152
Calendar year payments	698,316	1,434,558	3,504,097	5,367,899	6,401,201
Ending Reserves	<u>9,214,558</u>	<u>9,990,307</u>	<u>12,437,642</u>	<u>9,161,198</u>	<u>38,945,149</u>

<b>Assumed Reinsurance Basis</b>					
Beginning Reserves	533,896	3,975,895	3,687,651	3,771,998	3,441,469
Incurred losses and LAE	3,546,500	-	97,591	248,322	149,730
Calendar year payments	104,501	288,651	13,244	578,851	10,784
Ending Reserves	<u>3,975,895</u>	<u>3,687,651</u>	<u>3,771,998</u>	<u>3,441,469</u>	<u>3,580,415</u>

<b>Net of Ceded Reinsurance Basis</b>					
Beginning Reserves	7,416,530	12,386,875	10,377,042	10,112,191	6,203,595
Incurred losses and LAE	5,545,224	137,323	3,072,697	973,867	39,331,648
Calendar year payments	574,879	2,147,156	3,337,548	4,882,463	5,247,440
Ending Reserves	<u>12,386,875</u>	<u>10,377,042</u>	<u>10,112,191</u>	<u>6,203,595</u>	<u>40,287,803</u>

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

Direct Basis		31,257,728
Assumed Reinsurance Basis		3,432,036
Net of Ceded Reinsurance Basis		33,724,108

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

Direct Basis		1,004,572
Assumed Reinsurance Basis		-
Net of Ceded Reinsurance Basis		1,632,700

**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	281,339,747	5.689	281,339,747	5.703
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	139,364,582	2.818	139,364,582	2.825
1.22 Issued by U.S. government sponsored agencies	80,919,516	1.636	80,919,516	1.640
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	433,026,821	8.757	433,026,821	8.778
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	270,756,819	5.475	270,756,819	5.488
1.43 Revenue and assessment obligations	741,919,419	15.003	741,919,419	15.039
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	5,589,162	0.113	5,589,162	0.113
1.512 Issued or guaranteed by FNMA and FHLMC	491,898,898	9.947	491,898,898	9.971
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	471,055,075	9.526	471,055,075	9.548
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	39,721,692	0.803	39,721,692	0.805
1.523 All other	212,071,726	4.289	212,071,726	4.299
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	681,494,479	13.781	681,494,479	13.814
2.2 Unaffiliated foreign securities	71,693,550	1.450	71,693,550	1.453
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	236,248,279	4.777	236,248,279	4.789
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated	93,499,191	1.891	93,499,191	1.895
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	31,699,709	0.641	31,699,709	0.643
3.4 Other equity securities:				
3.41 Affiliated	556,575,175	11.255	544,848,175	11.044
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	26,821,667	0.542	26,821,667	0.544
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company	5,373,488	0.109	5,373,488	0.109
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	1,232,126	0.025	1,232,126	0.025
8. Cash, cash equivalents and short-term investments	27,610,120	0.558	27,610,120	0.560
9. Other invested assets	45,145,195	0.913	45,145,195	0.915
10. Total invested assets	4,945,056,436	100.000	4,933,329,436	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? New Hampshire
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [ X ]
- 2.2 If yes, date of change:
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2004
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2004
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 06/23/2006
- 3.4 By what department or departments? State of New Hampshire Insurance Department

- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes [ ] No [ X ]
- 4.12 renewals? Yes [ ] No [ X ]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [ ] No [ X ]
- 4.22 renewals? Yes [ ] No [ X ]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [ X ]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

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

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [ ] No [ X ]
- 6.2 If yes, give full information
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [ X ]
- 7.2 If yes,
- 7.21 State the percentage of foreign control 0%
- 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

1 Nationality	2 Type of Entity

- 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.
- 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   |  | \$ <u>0</u> |
| 19.22 Borrowed from others |  | \$ <u>0</u> |
| 19.23 Leased from others   |  | \$ <u>0</u> |
| 19.24 Other                |  | \$ <u>0</u> |
- 20.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [ ] No [X]
- 20.2 If answer is yes:
- |  |  |             |
|--|--|-------------|
| 20.21 Amount paid as losses or risk adjustment |  | \$ <u>0</u> |
| 20.22 Amount paid as expenses                  |  | \$ <u>0</u> |
| 20.23 Other amounts paid                       |  | \$ <u>0</u> |
- 21.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No [ ]
- 21.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ 0

### INVESTMENT

- 22.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits? Yes [X] No [ ]
- 22.2 If no, give full and complete information, relating thereto
- 23.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 19.1). Yes [X] No [ ]
- 23.2 If yes, state the amount thereof at December 31 of the current year:
- |  |  |                       |
|--|--|-----------------------|
| 23.21 Loaned to others                                 |  | \$ <u>145,951,150</u> |
| 23.22 Subject to repurchase agreements                 |  | \$ <u>0</u>           |
| 23.23 Subject to reverse repurchase agreements         |  | \$ <u>0</u>           |
| 23.24 Subject to dollar repurchase agreements          |  | \$ <u>0</u>           |
| 23.25 Subject to reverse dollar repurchase agreements  |  | \$ <u>0</u>           |
| 23.26 Pledged as collateral                            |  | \$ <u>0</u>           |
| 23.27 Placed under option agreements                   |  | \$ <u>0</u>           |
| 23.28 Letter stock or securities restricted as to sale |  | \$ <u>0</u>           |
| 23.29 On deposit with state or other regulatory body   |  | \$ <u>292,243,681</u> |
| 23.291 Other   |  | \$ <u>0</u>           |

23.3 For category (23.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

- 24.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [X]
- 24.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ] N/A [X]
- If no, attach a description with this statement.
- 25.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [ ] No [X]
- 25.2 If yes, state the amount thereof at December 31 of the current year. \$ 0

26. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, G - Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No [ ]

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

1 Name of Custodian(s)	2 Custodian's Address
JP MORGAN CHASE	3 Chase Metro Tech Center, Brooklyn, NY 11245

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

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

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

## 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
JP MORGAN CHASE	BANK OF NEW YORK	01/01/2007	CUSTODIAN SOLD BUSINESS

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
	STANCORP MORTGAGE INVESTORS	1100 SW SIXTH AVENUE, PORTLAND, OR 97204
	Enhanced Investment Technologies, LLC	2401 PGA Boulevard, Suite 100, Palm Beach Gardens, FL 33410

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 [ ] No [X]

27.2 If yes, complete the following schedule:

1 CUSIP#	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
27.2999	Total	

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

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	4,096,362,861	4,094,435,713	(1,927,148)
28.2 Preferred stocks	93,499,191	93,499,191	
28.3 Totals	4,189,862,052	4,187,934,904	(1,927,148)

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? \$ 167,638

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
Rhode Island Department of Labor	\$ 76,761
	\$
	\$

31.1 Amount of payments for legal expenses, if any? \$ 2,740,581



## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

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?

\$ 472,566

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
Federal Trade Commission	\$ 280,000
	\$
	\$
	\$

**GENERAL INTERROGATORIES**

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? YES [ ] NO [X]  
 1.2 If yes, indicate premium earned on U. S. business only. \$ 0  
 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$ 0  
 1.31 Reason for excluding

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. \$ 0  
 1.5 Indicate total incurred claims on all Medicare Supplement insurance. \$ 0

1.6 Individual policies:  
 Most current three years:  
 1.61 Total premium earned \$ 0  
 1.62 Total incurred claims \$ 0  
 1.63 Number of covered lives \$ 0  
 All years prior to most current three years:  
 1.64 Total premium earned \$ 0  
 1.65 Total incurred claims \$ 0  
 1.66 Number of covered lives \$ 0

1.7 Group policies:  
 Most current three years:  
 1.71 Total premium earned \$ 0  
 1.72 Total incurred claims \$ 0  
 1.73 Number of covered lives \$ 0  
 All years prior to most current three years:  
 1.74 Total premium earned \$ 0  
 1.75 Total incurred claims \$ 0  
 1.76 Number of covered lives \$ 0

2. Health Test:

	1	2
	Current Year	Prior Year
2.1 Premium Numerator	\$ 0	\$ 0
2.2 Premium Denominator	\$ 2,553,852,718	\$ 2,430,916,555
2.3 Premium Ratio (2.1/2.2)	0.00	0.00
2.4 Reserve Numerator	\$ 0	\$ 1,756
2.5 Reserve Denominator	\$ 3,994,540,810	\$ 3,834,902,291
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 \$ 5,023,261  
 3.22 Non-participating policies \$ 1,038,966,106

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 EMS 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 [ ] NO [X]
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   |  | \$ | 55,886,631 |
|  | 12.12 Unpaid underwriting expenses (including loss adjustment expenses) |  | \$ | 4,936,649  |
- 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? \$ 1,826,448
- 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): \$ 17,732,500
- 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)	1,721,887,757	1,663,078,784	1,277,053,701	1,258,705,194	1,051,701,694
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	553,904,215	531,494,192	478,440,838	505,684,589	479,444,374
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,536,879,494	1,507,929,095	1,325,994,022	1,300,870,601	1,029,606,066
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	1,132,476	8,674,958	1,275,951	2,071,142	3,783,862
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)					(10,956)
6. Total (Line 34)	3,813,803,942	3,711,177,029	3,082,764,512	3,067,331,526	2,564,525,040
<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)	1,210,850,841	1,162,799,809	1,006,943,955	484,676,623	387,415,948
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	381,150,394	365,586,931	397,843,705	203,747,388	179,386,296
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,041,822,458	1,015,143,519	1,066,470,987	505,621,080	373,508,440
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	803,263	6,164,488	1,533,509	849,135	815,439
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)					(4,557)
12. Total (Line 34)	2,634,626,956	2,549,694,747	2,472,792,156	1,194,894,226	941,121,566
<b>Statement of Income</b> (Page 4)					
13. Net underwriting gain (loss) (Line 8)	43,110,722	7,403,355	32,662,851	450,992	54,835,927
14. Net investment gain (loss) (Line 11)	226,431,795	678,576,356	122,306,999	89,584,941	88,588,058
15. Total other income (Line 15)	4,580,943	9,111,147	3,399,439	6,932,347	19,932,532
16. Dividends to policyholders (Line 17)	6,146,290	6,871,671	3,380,696	1,503,576	1,620,026
17. Federal and foreign income taxes incurred (Line 19)	79,977,829	108,737,255	115,997,734	32,459,646	54,479,105
18. Net income (Line 20)	187,999,341	579,481,932	38,990,859	63,005,058	107,257,386
<b>Balance Sheet Lines</b> (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	6,025,003,036	5,707,896,863	4,551,478,620	2,541,989,714	2,268,270,424
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	124,068,478	171,360,719	240,008,958	54,364,866	139,185,626
20.2 Deferred and not yet due (Line 13.2)	659,743,600	617,491,263	550,080,761	310,292,205	268,988,072
20.3 Accrued retrospective premiums (Line 13.3)	6,829,238	8,148,722			7,067,223
21. Total liabilities excluding protected cell business (Page 3, Line 24)	4,554,695,451	4,488,676,760	3,534,816,691	1,679,937,941	1,468,581,741
22. Losses (Page 3, Line 1)	2,248,032,435	2,081,607,322	1,562,734,554	767,313,733	595,661,503
23. Loss adjustment expenses (Page 3, Line 3)	514,461,445	477,618,586	359,180,936	171,591,280	113,539,239
24. Unearned premiums (Page 3, Line 9)	1,200,138,518	1,121,458,176	1,001,005,264	563,718,584	459,140,713
25. Capital paid up (Page 3, Lines 28 & 29)	8,848,635	8,848,635	8,848,635	8,848,635	8,848,635
26. Surplus as regards policyholders (Page 3, Line 35)	1,470,307,585	1,219,220,103	1,016,661,929	862,051,773	799,688,683
<b>Cash Flow</b> (Page 5)					
27. Net cash from operations (Line 11)	513,937,304	1,436,392,548	1,150,942,007	384,184,532	205,526,899
<b>Risk-Based Capital Analysis</b>					
28. Total adjusted capital	1,470,307,585	1,219,220,103	1,016,661,929	862,051,773	799,688,683
29. Authorized control level risk-based capital	285,104,975	227,339,457	203,723,687	178,109,077	136,757,700
<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)	79.5	83.4	74.3	69.0	62.0
31. Stocks (Lines 2.1 & 2.2)	16.5	10.2	20.3	33.3	36.5
32. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.5	0.3			
33. Real estate (Lines 4.1, 4.2 & 4.3)	0.1	0.1	0.2	0.4	0.4
34. Cash, cash equivalents and short-term investments (Line 5)	2.4	5.0	5.1	(3.0)	0.7
35. Contract loans (Line 6)					
36. Other invested assets (Line 7)	0.9	0.5	0.1	0.3	0.4
37. Receivables for securities (Line 8)		0.4			
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)	556,575,175	219,463,709	592,004,868	558,088,370	523,378,425
43. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 7)					
44. Affiliated mortgage loans on real estate					
45. All other affiliated					
46. Total of above Lines 40 to 45	556,575,175	219,463,709	592,004,868	558,088,370	523,378,425
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)	37.9	18.0	58.2	64.7	65.4

## 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)	(32,556,720)	(469,385,832)	31,263,135	34,561,069	56,557,428
49. Dividends to stockholders (Line 35)		(67,370,072)			
50. Change in surplus as regards policyholders for the year (Line 38)	251,087,482	202,558,174	154,610,156	62,363,090	635,483,472
<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)	811,136,570	199,609,231	587,758,763	525,108,646	455,003,928
52. Property lines (Lines 1, 2, 9, 12, 21 & 26)	245,117,875	212,967,675	190,458,142	185,415,457	217,720,898
53. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	661,633,827	622,066,994	473,304,023	358,697,635	415,890,226
54. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	189,387	2,232,590	807,645	1,216,654	2,348,879
55. Nonproportional reinsurance lines (Lines 30, 31 & 32)	146,543	(523,929)		2,530	760,220
56. Total (Line 34)	1,718,224,202	1,036,352,561	1,252,328,573	1,070,440,922	1,091,724,151
<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)	539,025,911	92,563,777	49,656,432	170,894,377	173,049,540
58. Property lines (Lines 1, 2, 9, 12, 21 & 26)	166,900,853	146,579,748	127,543,716	74,929,256	75,641,442
59. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	438,747,467	395,972,566	151,455,518	129,545,949	136,563,758
60. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	241,020	1,419,368	167,330	185,194	298,223
61. Nonproportional reinsurance lines (Lines 30, 31 & 32)	103,943	(371,623)	(1,648,527)		301,053
62. Total (Line 34)	1,145,019,194	636,163,836	327,174,469	375,554,776	385,854,016
<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	34.1
67. Net underwriting gain (loss) (Line 8)	1.7	0.3	1.6		6.4
<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)	34.4	31.5	29.6	30.1	29.4
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)	179.2	209.1	243.2	138.6	117.7
<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)	(191,348)	(38,121)	(44,067)	9,872	(2,580)
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)	(15.7)	(3.8)	(5.1)	1.2	(1.7)
<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)	(159,792)	13,250	(12,458)	46,845	42,292
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)	(15.7)	1.5	(1.6)	28.5	18.2

## 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>	1. United States	501,015,645	508,573,637	502,611,133	494,989,289
	2. Canada				
	3. Other Countries				
	4. Totals	501,015,645	508,573,637	502,611,133	494,989,289
Governments (Including all obligations guaranteed by governments)	5. United States	433,026,826	435,386,972	432,847,494	436,325,000
	6. Canada				
	7. Other Countries				
	8. Totals	433,026,826	435,386,972	432,847,494	436,325,000
States, Territories and Possessions (Direct and guaranteed)	9. United States	270,756,820	272,889,443	270,615,100	272,350,000
	10. Canada				
	11. Other Countries				
	12. Totals	270,756,820	272,889,443	270,615,100	272,350,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	13. United States	1,714,608,185	1,712,596,962	1,714,622,997	1,722,407,133
	14. Canada				
	15. Other Countries				
	16. Totals	1,714,608,185	1,712,596,962	1,714,622,997	1,722,407,133
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	17. United States	102,171,022	101,277,668	103,479,740	101,925,000
	18. Canada				
	19. Other Countries	2,798,688	2,809,669	2,798,854	2,625,000
	20. Totals	104,969,710	104,087,337	106,278,594	104,550,000
Public Utilities (unaffiliated)	21. United States	827,579,438	818,033,760	836,399,711	830,118,986
	22. Canada	15,563,607	15,175,284	15,536,210	15,655,000
	23. Other Countries	53,331,255	52,180,943	53,661,081	52,773,000
	24. Totals	896,474,300	885,389,987	905,597,002	898,546,986
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	25. Totals				
	26. Total Bonds	3,920,851,486	3,918,924,338	3,932,572,320	3,929,168,408
	<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	47,236,966	47,236,966	55,699,766	
	32. Canada				
	33. Other Countries				
	34. Totals	47,236,966	47,236,966	55,699,766	
Industrial and Miscellaneous (unaffiliated)	35. United States	46,262,225	46,262,225	61,075,868	
	36. Canada				
	37. Other Countries				
	38. Totals	46,262,225	46,262,225	61,075,868	
Parent, Subsidiaries and Affiliates	39. Totals				
	40. Total Preferred Stocks	93,499,191	93,499,191	116,775,634	
	<b>COMMON STOCKS</b>				
	Public Utilities (unaffiliated)	41. United States	3,232,398	3,232,398	2,976,092
42. Canada					
43. Other Countries					
44. Totals		3,232,398	3,232,398	2,976,092	
Banks, Trust and Insurance Companies (unaffiliated)	45. United States	2,402,471	2,402,471	2,767,310	
	46. Canada				
	47. Other Countries				
	48. Totals	2,402,471	2,402,471	2,767,310	
Industrial and Miscellaneous (unaffiliated)	49. United States	169,798,493	169,798,493	171,613,594	
	50. Canada				
	51. Other Countries	83,646	83,646	90,774	
	52. Totals	169,882,139	169,882,139	171,704,368	
Parent, Subsidiaries and Affiliates	53. Totals	556,575,175	556,575,175	919,818,269	
	54. Total Common Stocks	732,092,183	732,092,183	1,097,266,039	
	55. Total Stocks	825,591,374	825,591,374	1,214,041,673	
	56. Total Bonds and Stocks	4,746,442,860	4,744,515,712	5,146,613,993	

## SCHEDULE D - VERIFICATION BETWEEN YEARS

### Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year	4,174,031,774				
2. Cost of bonds and stocks acquired, Column 7, Part 3	1,072,814,377				
3. Accrual of discount	3,976,136				
4. Increase (decrease) by adjustment:					
4.1 Columns 12 - 14, Part 1	(5,260,178)				
4.2 Column 15 - 17, Part 2, Section 1	(24,236,385)				
4.3 Column 15, Part 2, Section 2	(16,365,928)				
4.4 Column 11 - 13, Part 4	(207,102)	(46,069,593)			
5. Total gain (loss), Column 19, Part 4	354,473				
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4	454,397,486				
7. Amortization of premium				4,308,747	
8. Foreign Exchange Adjustment:					
8.1 Column 15, Part 1					
8.2 Column 19, Part 2 Section 1					
8.3 Column 16, Part 2, Section 2					
8.4 Column 15, Part 4			41,926		41,926
9. Book/adjusted carrying value at end of current period					4,746,442,860
10. Total valuation allowance					
11. Subtotal (Lines 9 plus 10)					4,746,442,860
12. Total nonadmitted amounts					11,727,000
13. Statement value of bonds and stocks, current period					4,734,715,860



**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	14,911	5,020	4,120	662	1,871	22	72,683	15,198	X X X
2. 1998	1,547,005	283,033	1,263,972	1,038,537	260,657	80,977	16,984	126,176	29,867	54,352	938,182	X X X
3. 1999	1,433,819	211,361	1,222,458	1,020,631	186,956	74,969	11,902	124,346	22,144	54,711	998,944	X X X
4. 2000	1,362,641	168,844	1,193,797	968,721	155,377	73,679	7,450	110,778	12,933	52,602	977,418	X X X
5. 2001	1,462,296	198,188	1,264,108	924,643	151,600	75,438	5,696	106,730	13,947	52,389	935,568	X X X
6. 2002	1,997,065	476,506	1,520,559	1,107,053	246,424	80,025	15,953	97,309	19,965	59,382	1,002,045	X X X
7. 2003	2,298,875	394,001	1,904,874	1,078,783	211,584	78,684	12,262	149,788	24,982	64,717	1,058,427	X X X
8. 2004	2,362,173	220,609	2,141,564	962,433	80,027	53,532	4,400	132,802	9,700	67,622	1,054,640	X X X
9. 2005	2,483,634	147,710	2,335,924	959,452	95,497	47,820	4,669	144,394	6,413	58,986	1,045,087	X X X
10. 2006	2,562,415	131,496	2,430,919	853,907	34,549	27,656	830	145,387	10,402	42,186	981,169	X X X
11. 2007	2,623,421	69,567	2,553,854	580,298	12,872	12,500	148	113,040	556	18,388	692,262	X X X
12. Totals	X X X	X X X	X X X	9,509,369	1,440,563	609,400	80,956	1,252,621	150,931	598,018	9,698,940	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	148,554	13,319	38,148	10,054	2,041	4	5,953	2,090	10,344	380	173	179,193	X X X
2. 1998	39,061	17,931	11,137	7,850	910	716	3,469	2,000	2,968	1,467	125	27,581	X X X
3. 1999	39,986	14,204	12,478	8,414	364		4,047	1,860	3,219	1,430	187	34,186	X X X
4. 2000	37,339	11,229	14,149	8,253	428		4,647	1,364	3,423	1,085	260	38,055	X X X
5. 2001	60,428	9,695	16,925	8,285	858		6,416	1,009	3,561	738	436	68,461	X X X
6. 2002	63,377	15,639	25,543	7,773	1,863	60	10,636	745	4,328	417	1,436	81,113	X X X
7. 2003	64,056	11,639	50,055	8,232	1,136		19,301	601	7,348	10	2,249	121,414	X X X
8. 2004	99,232	8,352	81,394	12,021	963		27,653	1,043	11,480	2	3,808	199,304	X X X
9. 2005	155,079	7,897	130,647	21,492	1,340		46,910	1,757	20,829	23	6,143	323,636	X X X
10. 2006	266,182	11,027	252,397	40,156	2,046	41	83,399	3,352	41,626	19	10,144	591,055	X X X
11. 2007	470,832	2,628	427,364	248	3,454		111,974	38	87,813	33	24,489	1,098,490	X X X
12. Totals	1,444,126	123,560	1,060,237	132,778	15,403	821	324,405	15,859	196,939	5,604	49,450	2,762,488	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	163,329	15,864
2. 1998	1,303,235	337,472	965,763	84.242	119.234	76.407			70.930	24,417	3,164
3. 1999	1,280,040	246,910	1,033,130	89.275	116.819	84.513			70.930	29,846	4,340
4. 2000	1,213,164	197,691	1,015,473	89.030	117.085	85.062			70.930	32,006	6,049
5. 2001	1,194,999	190,970	1,004,029	81.721	96.358	79.426			70.930	59,373	9,088
6. 2002	1,390,134	306,976	1,083,158	69.609	64.422	71.234			70.930	65,508	15,605
7. 2003	1,449,151	269,310	1,179,841	63.037	68.353	61.938			70.930	94,240	27,174
8. 2004	1,369,489	115,545	1,253,944	57.976	52.375	58.553			70.930	160,253	39,051
9. 2005	1,506,471	137,748	1,368,723	60.656	93.256	58.595			70.930	256,337	67,299
10. 2006	1,672,600	100,376	1,572,224	65.274	76.334	64.676			70.930	467,396	123,659
11. 2007	1,807,275	16,523	1,790,752	68.890	23.751	70.120			70.930	895,320	203,170
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	2,248,025	514,463

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	726,540	709,267	696,224	674,589	698,730	702,691	698,974	720,324	723,064	751,550	28,486	31,226
2. 1998	854,982	845,927	842,734	844,501	841,189	843,904	855,759	864,603	865,399	868,952	3,553	4,349
3. 1999	X X X	852,891	867,175	874,863	887,910	895,462	906,399	913,534	918,804	930,152	11,348	16,618
4. 2000	X X X	X X X	829,649	865,777	878,021	894,714	891,957	898,219	905,734	916,262	10,528	18,043
5. 2001	X X X	X X X	X X X	858,125	848,314	861,089	875,136	874,414	879,711	910,081	30,370	35,667
6. 2002	X X X	X X X	X X X	X X X	1,006,905	1,029,575	1,026,712	1,017,318	1,022,408	1,003,235	(19,173)	(14,083)
7. 2003	X X X	X X X	X X X	X X X	X X X	1,034,593	1,012,307	1,000,946	1,011,010	1,049,204	38,194	48,258
8. 2004	X X X	X X X	X X X	X X X	X X X	X X X	1,297,872	1,253,998	1,252,242	1,121,827	(130,415)	(132,171)
9. 2005	X X X	X X X	X X X	X X X	X X X	X X X	X X X	1,378,668	1,305,537	1,210,970	(94,567)	(167,698)
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	1,466,260	1,396,590	(69,670)	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	1,593,447	X X X	X X X
	12. Totals										(191,346)	(159,791)

**SCHEDULE P-PART 3-SUMMARY**

Years in Which Losses Were Incurred	Cumulative Paid Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										11 Number of Claims Closed With Loss Payment	12 Number of Claims Closed Without Loss Payment
	1	2	3	4	5	6	7	8	9	10		
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		
1. Prior	000	212,476	337,113	420,580	469,623	497,244	514,824	537,432	558,947	572,296	X X X	X X X
2. 1998	398,641	604,168	701,500	754,160	786,812	806,060	819,645	826,785	837,136	841,873	X X X	X X X
3. 1999	X X X	415,447	633,677	735,195	800,700	834,979	864,183	878,041	888,771	896,742	X X X	X X X
4. 2000	X X X	X X X	406,239	634,619	737,312	798,272	833,696	855,212	871,960	879,573	X X X	X X X
5. 2001	X X X	X X X	X X X	402,315	621,136	713,542	779,021	804,772	828,711	842,785	X X X	X X X
6. 2002	X X X	X X X	X X X	X X X	392,500	639,882	764,945	856,332	900,713	924,701	X X X	X X X
7. 2003	X X X	X X X	X X X	X X X	X X X	453,463	690,897	807,512	879,455	933,621	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	448,696	727,753	854,911	931,538	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	471,982	765,001	907,106	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	542,302	846,184	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	579,778	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	277,017	159,825	113,422	72,448	64,495	79,537	39,478	33,090	19,309	31,957
2. 1998	217,748	85,981	54,876	35,337	17,909	9,838	11,997	8,424	6,349	4,756
3. 1999	X X X	187,329	84,695	49,359	26,705	15,124	17,276	8,495	8,519	6,251
4. 2000	X X X	X X X	170,988	95,617	56,066	35,664	24,496	11,469	17,549	9,179
5. 2001	X X X	X X X	X X X	195,082	101,321	47,027	42,424	19,982	27,875	14,047
6. 2002	X X X	X X X	X X X	X X X	367,449	188,377	83,600	59,227	54,861	27,661
7. 2003	X X X	X X X	X X X	X X X	X X X	279,319	134,783	91,695	78,203	60,523
8. 2004	X X X	X X X	X X X	X X X	X X X	X X X	475,401	279,383	206,015	95,983
9. 2005	X X X	X X X	X X X	X X X	X X X	X X X	X X X	543,261	279,947	154,308
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	528,307	292,288
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	539,052

**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				(6,869)	18,974		
2. Alaska	AK	YES							
3. Arizona	AZ	YES	1,666,667	1,807,849	281,974	305,904	714,046	7,379	
4. Arkansas	AR	YES	2,824,353	3,206,862	2,373,656	2,182,743	2,679,717	12,505	
5. California	CA	YES	261,556,090	259,636,781	83,658,391	97,120,539	164,033,915	1,158,016	
6. Colorado	CO	YES	(45)	92	2,519	(45,368)			
7. Connecticut	CT	YES	65,344,028	63,393,986	41,750	27,617,516	38,957,404	58,754,835	289,305
8. Delaware	DE	YES	6,757,239	7,281,442	41,703	3,495,573	4,527,547	9,166,721	29,917
9. Dist. Columbia	DC	YES	1,562,874	1,820,924		1,334,519	4,660,392	5,408,581	6,919
10. Florida	FL	YES	56,237	52,936		1,164	(17,426)	73,068	249
11. Georgia	GA	YES	20,575,078	20,590,988		12,528,604	12,996,693	17,434,501	91,094
12. Hawaii	HI	NO		6					
13. Idaho	ID	YES							
14. Illinois	IL	YES	10,040,935	9,757,241	2,116	2,496,160	(3,907,869)	5,215,663	44,455
15. Indiana	IN	YES	16,726,911	18,570,859	13,222	7,467,969	6,595,552	20,812,774	74,057
16. Iowa	IA	YES	1,272,507	1,266,790		506,074	(85,240)	771,408	5,634
17. Kansas	KS	YES	2,094,556	2,208,702		802,288	660,952	1,047,673	9,273
18. Kentucky	KY	YES	4,240,006	4,659,767		2,020,415	2,969,508	4,069,359	18,772
19. Louisiana	LA	YES	7,211,983	7,162,870		2,498,687	2,293,381	6,652,348	31,930
20. Maine	ME	YES	58,037,573	61,094,866	22,382	27,258,358	24,949,035	29,765,299	256,956
21. Maryland	MD	YES	22,407,832	24,447,766	18,707	10,546,277	7,380,206	20,726,247	99,209
22. Massachusetts	MA	YES	31,423,091	30,537,746	342	8,457,693	6,827,897	17,372,463	139,123
23. Michigan	MI	YES	2,683,816	3,041,763	5,554	482,595	(464,654)	1,208,674	11,882
24. Minnesota	MN	YES	3,107,171	3,380,368		1,160,224	166,186	3,393,938	13,757
25. Mississippi	MS	YES	928	928			2,500		4
26. Missouri	MO	YES	10,517,825	11,207,182		5,413,517	3,907,734	7,890,975	46,567
27. Montana	MT	YES							
28. Nebraska	NE	YES	1,656,719	1,692,820		432,148	87,742	806,017	7,335
29. Nevada	NV	YES		7		(2,045)	(38,528)	31,908	
30. New Hampshire	NH	YES	98,065,438	100,481,025	206,688	44,936,977	58,699,212	61,622,708	434,176
31. New Jersey	NJ	NO		210		119	(100)	39,643	
32. New Mexico	NM	YES	420	420					2
33. New York	NY	YES	112,108,171	103,412,291	353,405	42,985,396	46,073,535	59,669,814	496,349
34. No. Carolina	NC	YES	79,154,419	77,100,112	29,535	34,776,610	25,963,325	33,382,899	350,449
35. No. Dakota	ND	YES							
36. Ohio	OH	YES	6,783,848	6,852,149		5,864,420	12,472,435	19,746,226	30,035
37. Oklahoma	OK	YES	5,510,253	5,900,034		2,736,915	4,433,835	6,095,599	24,396
38. Oregon	OR	YES	200	202		2,000	2,000		1
39. Pennsylvania	PA	YES	79,841,308	86,979,736	24,802	38,817,733	38,768,279	71,366,109	353,490
40. Rhode Island	RI	YES	34,385,018	29,468,358	1,131	19,361,872	15,893,756	17,621,199	152,237
41. So. Carolina	SC	YES	18,844,090	17,922,238		5,828,198	8,287,538	13,780,432	83,430
42. So. Dakota	SD	YES							
43. Tennessee	TN	YES	4,920,030	5,363,245	6,287	1,726,855	2,332,725	3,832,535	21,783
44. Texas	TX	YES	9,673,048	10,309,075		4,547,334	2,465,730	6,162,824	42,827
45. Utah	UT	YES							
46. Vermont	VT	YES	37,707,597	38,433,556	48,467	12,494,051	9,836,810	27,008,689	166,947
47. Virginia	VA	YES	23,230,779	24,320,799		8,442,155	8,058,695	20,969,172	102,852
48. Washington	WA	YES							
49. West Virginia	WV	YES	965	874					4
50. Wisconsin	WI	YES	1,999,414	2,112,383	68,842	971,054	1,660,495	2,178,672	8,852
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) 49		1,043,989,372	1,045,478,248	884,933	424,325,965	446,974,231	721,525,625	4,622,168

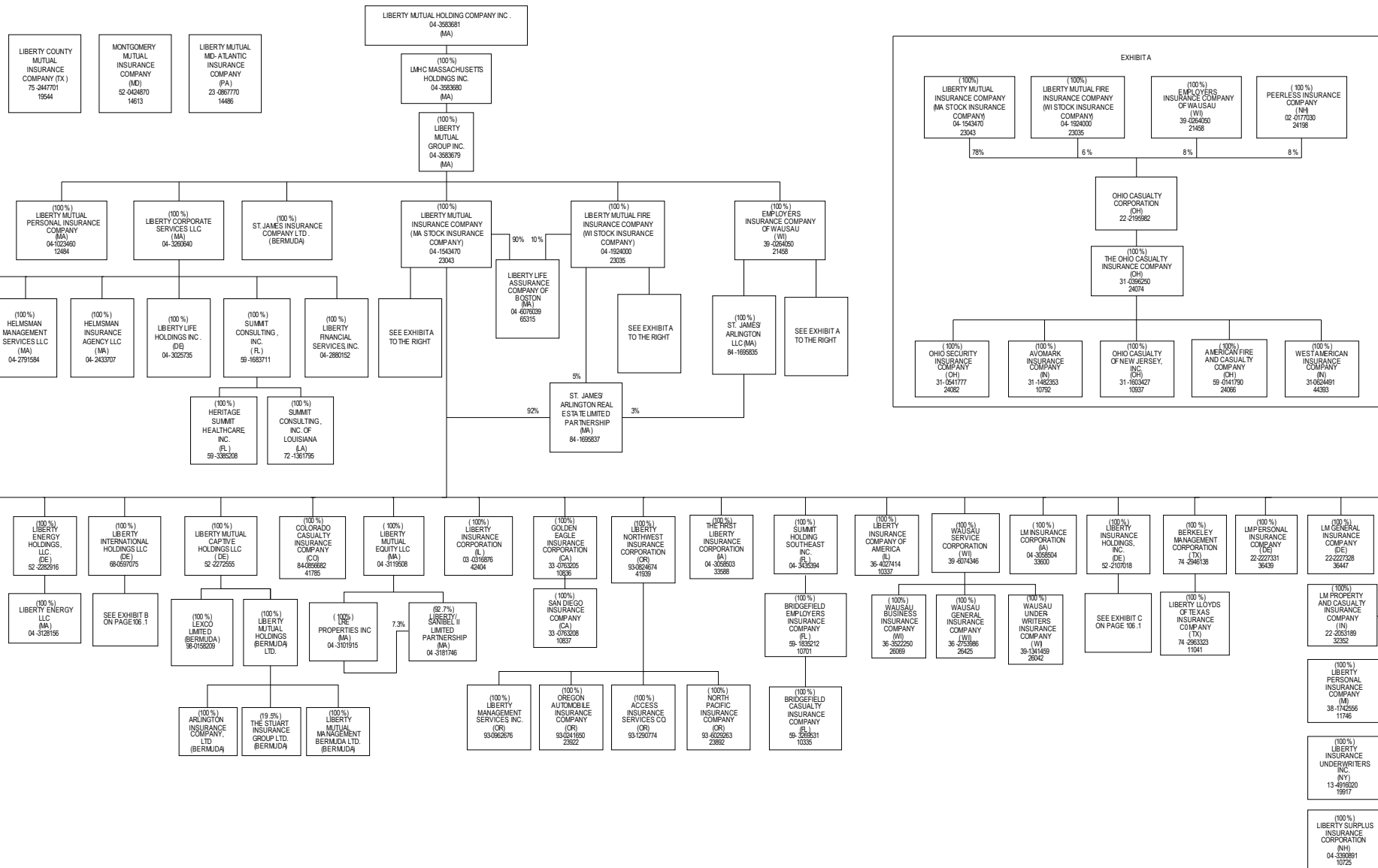
DETAILS OF WRITE-INS									
5801.	X X X								
5802.	X X X								
5803.	X X X								
5898. Summary of remaining write-ins for Line 58 from overflow page	X X X								
5899. Totals (Lines 5801 through 5803 + 5898) (Line 58 above)	X X X								

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

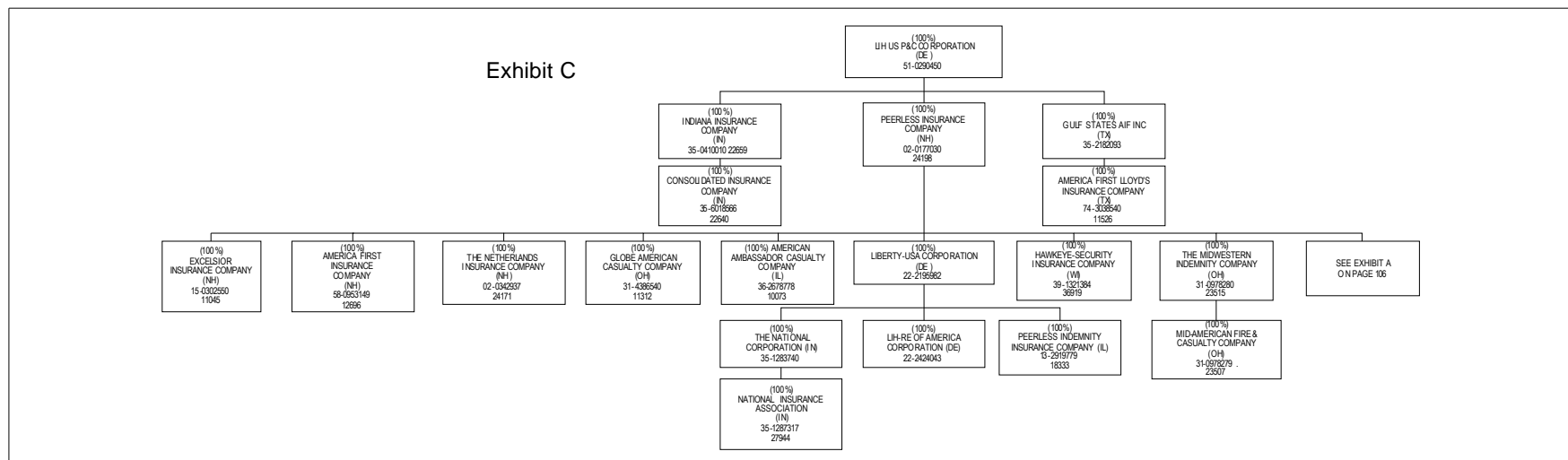
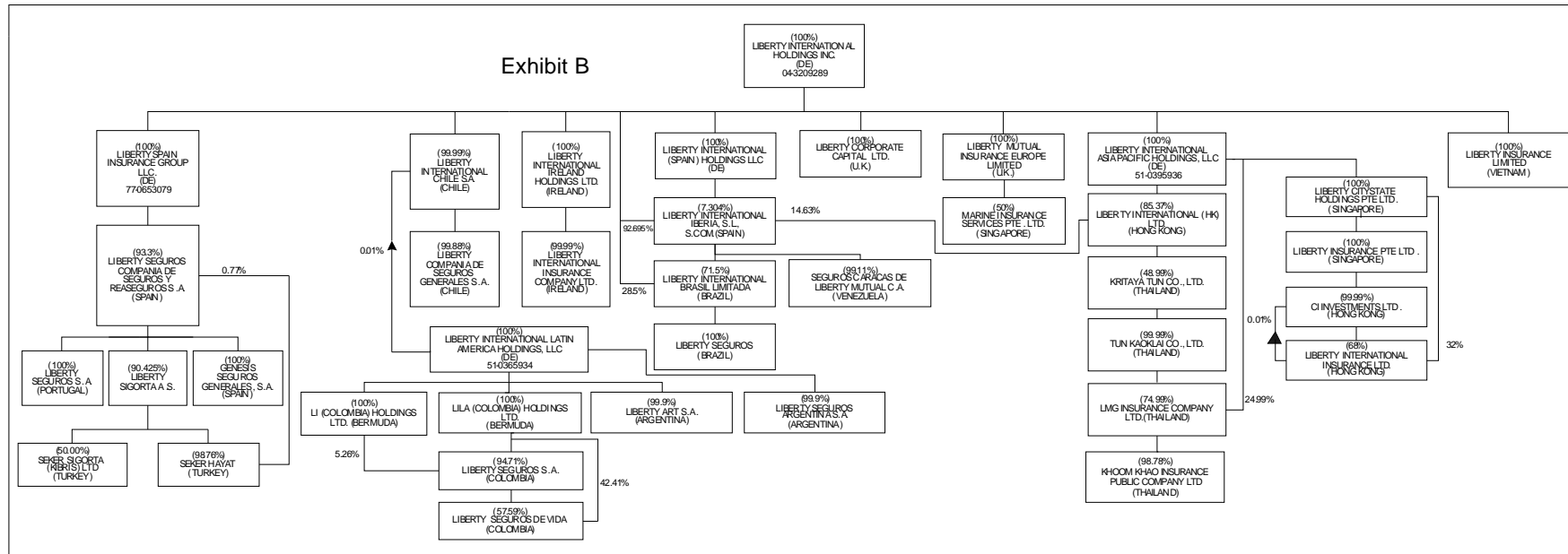
- \*Location of coverage - Fire, Allied Lines, Homeowners Multi Peril, Commercial Multi Peril, Earthquake, Boiler and Machinery
- \*States of Jurisdiction under which payrolls and resulting premiums are developed - Worker's Compensation
- \*Location of Principal place of garaging of each individual car - 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



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



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**OVERFLOW PAGE FOR WRITE-INS**

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**OVERFLOW PAGE FOR WRITE-INS**

**Page 2 - Continuation  
ASSETS**

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

**REMAINING WRITE-INS AGGREGATED AT LINE 09 FOR INVESTED ASSETS**

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

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

2304. Equities and deposits in pools and associations	18,049,305		18,049,305	11,157,130
2305.				
2306.				
2307.				
2308.				
2309.				
2310.				
2311.				
2312.				
2313.				
2314.				
2315.				
2316.				
2317.				
2318.				
2319.				
2320.				
2321.				
2322.				
2323.				
2324.				
2325.				
2397. Totals (Lines 2304 through 2325) (Page 2, Line 2398)	18,049,305		18,049,305	11,157,130

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