ANNUAL STATEMENT

OF THE

AMERICAN ECONOMY INSURANCE COMPANY

of INDIANAPOLIS

in the state of INDIANA

TO THE

Insurance Department

OF THE

FOR THE YEAR ENDED

December 31, 2012

PROPERTY AND CASUALTY

2012

19690201220100100

ANNUAL STATEMENT

For the Year Ended December 31, 2012
OF THE CONDITION AND AFFAIRS OF THE

American Economy Insurance Company

NAIC Group Code 0111 (Current Period) 0111 (Prior Period) **NAIC Company Code** 19690 **Employer's ID Number** 35-1044900

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

Country of Domicile United States of America

Incorporated/Organized October 19, 1959 **Commenced Business** October 23, 1959

Statutory Home Office 350 East 96th Street (Street and Number), Indianapolis, IN, US 46240 (City or Town, State, Country and Zip Code)

Main Administrative Office 175 Berkeley Street (Street and Number)
Boston, MA, US 02116 (City or Town, State, Country and Zip Code) 617-357-9500 (Area Code) (Telephone Number)

Mail Address 175 Berkeley Street (Street and Number or P.O. Box), Boston, MA, US 02116 (City or Town, State, Country and Zip Code)

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

Internet Web Site Address WWW.SAFECO.COM

Statutory Statement Contact Pamela Heenan (Name) 617-357-9500 x44689 (Area Code) (Telephone Number) (Extension)
Statutory.Compliance@LibertyMutual.com (E-Mail Address) 617-574-5955 (Fax Number)

OFFICERS

Chairman of the Board

Timothy Michael Sweeney

	Name	Title
1.	Timothy Michael Sweeney #	President and Chief Executive Officer
2.	Dexter Robert Legg	Vice President and Secretary
3.	Laurance Henry Soyer Yahia #	Vice President and Treasurer

VICE-PRESIDENTS

Name	Title	Name	Title
Margaret Dillon #	Vice President and Chief Financial Officer	John Derek Doyle #	Vice President and Comptroller
Anthony Alexander Fontanes	Vice President and Chief Investment Officer	Elizabeth Julia Morahan #	Vice President and General Counsel

DIRECTORS OR TRUSTEES

Margaret Dillon #	John Derek Doyle	Paul Ivanovskis #	Kevin John Kirschner
Dexter Robert Legg	Stephen Joseph McAnena #	Elizabeth Julia Morahan #	Timothy Michael Sweeney #

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)	(Signature)	(Signature)
Timothy Michael Sweeney #	Dexter Robert Legg	Laurance Henry Soyer Yahia #
(Printed Name) 1.	(Printed Name) 2.	(Printed Name) 3.
President and Chief Executive Officer	Vice President and Secretary	Vice President and Treasurer
(Title)	(Title)	(Title)

Subscribed and sworn to (or affirmed) before me on this
22nd day of January , 2013, by

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

ASSETS

	Current Year 1 Assets	Current Year 2 Nonadmitted Assets	Current Year 3 Net Admitted Assets (Cols. 1 - 2)	Prior Year 4 Net Admitted Assets
1. Bonds (Schedule D)	801,911,199		801,911,199	847,966,089
2. Stocks (Schedule D):				
2.1 Preferred stocks	5,305,000		5,305,000	12,046,800
2.2 Common stocks	75,320,785		75,320,785	68,145,433
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens	28,759,042	120,525	28,638,517	26,756,319
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less $ 0 encumbrances)				
4.2 Properties held for the production of income (less $ 0 encumbrances)				
4.3 Properties held for sale (less $ 0 encumbrances)				
5. Cash ($ 193,312, Schedule E - Part 1), cash equivalents ($ 12,194,170, Schedule E - Part 2), and short-term investments ($ 51,952,671, Schedule DA)	64,340,153		64,340,153	43,754,048
6. Contract loans (including $ 0 premium notes)				
7. Derivatives (Schedule DB)				
8. Other invested assets (Schedule BA)	86,284		86,284	88,296
9. Receivables for securities	4,739,194		4,739,194	4,581,993
10. Securities lending reinvested collateral assets (Schedule DL)				5,716,337
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Lines 1 to 11)	980,461,657	120,525	980,341,132	1,009,055,315
13. Title plants less $ 0 charged off (for Title insurers only)				
14. Investment income due and accrued	8,039,535		8,039,535	8,969,444
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection	20,718,730	2,918,570	17,800,160	22,440,194
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ 1,431,432 earned but unbilled premiums)	179,759,144	143,144	179,616,000	168,865,110
15.3 Accrued retrospective premiums	4,241	424	3,817	258,587
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers	11,265,332		11,265,332	17,912,808
16.2 Funds held by or deposited with reinsured companies				
16.3 Other amounts receivable under reinsurance contracts				
17. Amounts receivable relating to uninsured plans				
18.1 Current federal and foreign income tax recoverable and interest thereon				1,993,419
18.2 Net deferred tax asset	48,462,000	35,596,570	12,865,430	27,982,430
19. Guaranty funds receivable or on deposit	529,596		529,596	673,304
20. Electronic data processing equipment and software				
21. Furniture and equipment, including health care delivery assets ($ 0)				
22. Net adjustment in assets and liabilities due to foreign exchange rates				
23. Receivables from parent, subsidiaries and affiliates	4,344,297		4,344,297	5,260,364
24. Health care ($ 0) and other amounts receivable				
25. Aggregate write-ins for other than invested assets	5,658,245	729,291	4,928,954	4,818,674
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	1,259,242,777	39,508,524	1,219,734,253	1,268,229,649
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28. Total (Lines 26 and 27)	1,259,242,777	39,508,524	1,219,734,253	1,268,229,649

DETAILS OF WRITE-IN LINES				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page				
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)				
2501. Cash Surrender Value Life Insurance	3,392,947		3,392,947	3,307,509
2502. Equities and deposits in pools and associations	1,516,357		1,516,357	1,466,929
2503. Other assets	748,941	729,291	19,650	44,236
2598. Summary of remaining write-ins for Line 25 from overflow page				
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	5,658,245	729,291	4,928,954	4,818,674

LIABILITIES, SURPLUS AND OTHER FUNDS

		1 Current Year	2 Prior Year
1.	Losses (Part 2A, Line 35, Column 8)	495,123,875	504,804,800
2.	Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	33,563,088	37,679,383
3.	Loss adjustment expenses (Part 2A, Line 35, Column 9)	113,232,251	111,621,344
4.	Commissions payable, contingent commissions and other similar charges	18,100,818	15,716,607
5.	Other expenses (excluding taxes, licenses and fees)	9,272,220	8,799,976
6.	Taxes, licenses and fees (excluding federal and foreign income taxes)	3,933,741	4,154,838
7.1	Current federal and foreign income taxes (including $ 0 on realized capital gains (losses))	9,425,636	
7.2	Net deferred tax liability		
8.	Borrowed money $ 0 and interest thereon $ 0		
9.	Unearned premiums (Part 1A, Line 38, Column 5) (after deducting unearned premiums for ceded reinsurance of $ 107,063,774 and including warranty reserves of $ 0 and accrued accident and healthexperience rating refunds including $ 0 for medical loss ratio rebate per the Public Health Service Act)	293,734,587	282,190,835
10.	Advance premium	2,195,116	1,926,261
11.	Dividends declared and unpaid:		
	11.1 Stockholders		
	11.2 Policyholders	78,634	77,270
12.	Ceded reinsurance premiums payable (net of ceding commissions)	15,549,269	18,120,154
13.	Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)		
14.	Amounts withheld or retained by company for account of others	735,351	553,905
15.	Remittances and items not allocated		
16.	Provision for reinsurance (including $ 0 certified) (Schedule F, Part 8)		
17.	Net adjustments in assets and liabilities due to foreign exchange rates		
18.	Drafts outstanding	19,326,938	19,940,142
19.	Payable to parent, subsidiaries and affiliates	8,791,061	6,889,286
20.	Derivatives		
21.	Payable for securities	1,856,007	6,685,537
22.	Payable for securities lending		5,716,337
23.	Liability for amounts held under uninsured plans		
24.	Capital notes $ 0 and interest thereon $ 0		
25.	Aggregate write-ins for liabilities	8,517,766	9,322,941
26.	Total liabilities excluding protected cell liabilities (Lines 1 through 25)	1,033,436,358	1,034,199,616
27.	Protected cell liabilities		
28.	Total liabilities (Lines 26 and 27)	1,033,436,358	1,034,199,616
29.	Aggregate write-ins for special surplus funds	982,646	10,504,733
30.	Common capital stock	5,000,000	5,000,000
31.	Preferred capital stock		
32.	Aggregate write-ins for other than special surplus funds		
33.	Surplus notes		
34.	Gross paid in and contributed surplus	195,145,851	206,979,280
35.	Unassigned funds (surplus)	(14,830,602)	11,546,020
36.	Less treasury stock, at cost:		
	36.1 0 shares common (value included in Line 30 $ 0)		
	36.2 0 shares preferred (value included in Line 31 $ 0)		
37.	Surplus as regards policyholders (Lines 29 to 35, less 36) (Page 4, Line 39)	186,297,895	234,030,033
38.	Totals (Page 2, Line 28, Col. 3)	1,219,734,253	1,268,229,649

	DETAILS OF WRITE-IN LINES		
2501.	Retroactive reinsurance reserves	4,631,660	4,967,483
2502.	Other liabilities	3,602,516	4,053,806
2503.	Amounts held under uninsured plans	283,590	301,652
2598.	Summary of remaining write-ins for Line 25 from overflow page		
2599.	Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	8,517,766	9,322,941
2901.	Special surplus from retroactive reinsurance	982,646	1,177,256
2902.	SSAP 10R incremental change		9,327,477
2903.			
2998.	Summary of remaining write-ins for Line 29 from overflow page		
2999.	Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)	982,646	10,504,733
3201.			
3202.			
3203.			
3298.	Summary of remaining write-ins for Line 32 from overflow page		
3299.	Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)		

STATEMENT OF INCOME

	1 Current Year	2 Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 35, Column 4)	601,239,999	586,389,471
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 35, Column 7)	326,274,582	362,787,722
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	74,518,636	70,840,263
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	196,680,576	189,056,610
5. Aggregate write-ins for underwriting deductions		(59,937)
6. Total underwriting deductions (Lines 2 through 5)	597,473,794	622,624,658
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	3,766,205	(36,235,187)
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	39,782,283	41,688,783
10. Net realized capital gains (losses) less capital gains tax of $ 3,295,835 (Exhibit of Capital Gains (Losses))	6,120,836	1,312,298
11. Net investment gain (loss) (Lines 9 + 10)	45,903,119	43,001,081
OTHER INCOME		
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered $ 9,177 amount charged off $ 1,596,853)	(1,587,676)	(1,310,669)
13. Finance and service charges not included in premiums	5,142,179	4,950,866
14. Aggregate write-ins for miscellaneous income	(966,527)	(1,834,864)
15. Total other income (Lines 12 through 14)	2,587,976	1,805,333
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	52,257,300	8,571,227
17. Dividends to policyholders	1,441,861	1,177,584
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)	50,815,439	7,393,643
19. Federal and foreign income taxes incurred	7,121,165	(2,034,622)
20. Net income (Line 18 minus Line 19) (to Line 22)	43,694,274	9,428,265
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	234,030,033	236,286,241
22. Net income (from Line 20)	43,694,274	9,428,265
23. Net transfers (to) from Protected Cell accounts		
24. Change in net unrealized capital gains or (losses) less capital gains tax of $ 2,507,407	5,203,917	(2,532,332)
25. Change in net unrealized foreign exchange capital gain (loss)		
26. Change in net deferred income tax	(6,214,593)	(656,884)
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 28, Col. 3)	(177,509)	(9,533,248)
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)		
29. Change in surplus notes		
30. Surplus (contributed to) withdrawn from protected cells		
31. Cumulative effect of changes in accounting principles	2,924,710	448,738
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	(11,833,429)	
33.2 Transferred to capital (Stock Dividend)		
33.3 Transferred from capital		
34. Net remittances from or (to) Home Office		
35. Dividends to stockholders	(72,002,031)	
36. Change in treasury stock (Page 3, Lines 36.1 and 36.2, Column 2 minus Column 1)		
37. Aggregate write-ins for gains and losses in surplus	(9,327,477)	589,253
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	(47,732,138)	(2,256,208)
39. Surplus as regards policyholders, December 31 current year (Lines 21 plus Line 38) (Page 3, Line 37)	186,297,895	234,030,033

DETAILS OF WRITE-IN LINES		
0501. Private passenger auto escrow		(59,937)
0502.		
0503.		
0598. Summary of remaining write-ins for Line 05 from overflow page		
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 05 above)		(59,937)
1401. Retroactive reinsurance gain/(loss)	1,976,549	(119,538)
1402. Other income/(expense)	(2,943,076)	(1,715,326)
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page		
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	(966,527)	(1,834,864)
3701. SSAP 10R incremental change	(9,327,477)	589,253
3702.		
3703.		
3798. Summary of remaining write-ins for Line 37 from overflow page		
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)	(9,327,477)	589,253

CASH FLOW

		1 Current Year	2 Prior Year
	Cash from Operations		
1.	Premiums collected net of reinsurance	603,960,450	586,513,885
2.	Net investment income	44,775,931	45,633,664
3.	Miscellaneous income	2,701,931	1,858,395
4.	Total (Lines 1 through 3)	651,438,312	634,005,944
5.	Benefit and loss related payments	334,037,528	357,996,049
6.	Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7.	Commissions, expenses paid and aggregate write-ins for deductions	266,952,948	255,350,981
8.	Dividends paid to policyholders	1,440,497	1,152,806
9.	Federal and foreign income taxes paid (recovered) net of $ 0 tax on capital gains (losses)	(1,002,055)	(8,095,122)
10.	Total (Lines 5 through 9)	601,428,918	606,404,714
11.	Net cash from operations (Line 4 minus Line 10)	50,009,394	27,601,230
	Cash from Investments		
12.	Proceeds from investments sold, matured or repaid:		
	12.1 Bonds	337,630,696	229,306,517
	12.2 Stocks	23,722,364	9,373,959
	12.3 Mortgage loans	2,222,492	738,092
	12.4 Real estate		
	12.5 Other invested assets	129,862,092	79,502,712
	12.6 Net gains (or losses) on cash, cash equivalents and short-term investments		
	12.7 Miscellaneous proceeds	(157,201)	(3,997,002)
	12.8 Total investment proceeds (Lines 12.1 to 12.7)	493,280,443	314,924,278
13.	Cost of investments acquired (long-term only):		
	13.1 Bonds	284,451,213	217,342,857
	13.2 Stocks	18,214,242	18,148,410
	13.3 Mortgage loans	4,138,485	388,807
	13.4 Real estate		
	13.5 Other invested assets	124,145,755	73,780,742
	13.6 Miscellaneous applications	4,829,529	306,303
	13.7 Total investments acquired (Lines 13.1 to 13.6)	435,779,224	309,967,119
14.	Net increase (decrease) in contract loans and premium notes		
15.	Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	57,501,219	4,957,159
	Cash from Financing and Miscellaneous Sources		
16.	Cash provided (applied):		
	16.1 Surplus notes, capital notes		
	16.2 Capital and paid in surplus, less treasury stock	(11,833,429)	
	16.3 Borrowed funds		
	16.4 Net deposits on deposit-type contracts and other insurance liabilities		
	16.5 Dividends to stockholders	72,002,031	
	16.6 Other cash provided (applied)	(3,089,048)	(8,614,050)
17.	Net cash from financing and miscellaneous sources (Lines 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	(86,924,508)	(8,614,050)
	RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18.	Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	20,586,105	23,944,339
19.	Cash, cash equivalents and short-term investments:		
	19.1 Beginning of year	43,754,048	19,809,709
	19.2 End of year (Line 18 plus Line 19.1)	64,340,153	43,754,048

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

20.0001	12.1 - Proceeds from investments sold, matured or repaid - Bonds	85,869,457	
20.0002	16.2 - Capital and paid in surplus, less treasury stock	25,997,969	
20.0003	16.5 - Dividends to stockholders	60,994,547	

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	12,031,553	5,963,346	6,318,410	11,676,489
2. Allied lines	10,627,755	5,097,027	5,801,056	9,923,726
3. Farmowners multiple peril	4,949,165	2,341,980	2,507,986	4,783,159
4. Homeowners multiple peril	105,614,750	49,749,790	56,507,047	98,857,493
5. Commercial multiple peril	103,631,469	52,395,223	50,638,028	105,388,664
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine	9,840,165	4,563,292	4,669,132	9,734,325
10. Financial guaranty				
11.1 Medical professional liability—occurrence	41,087	16,304	14,372	43,019
11.2 Medical professional liability—claims-made	3,673	2,564	987	5,250
12. Earthquake	1,995,556	1,019,168	1,013,743	2,000,981
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health				
16. Workers' compensation	44,572,508	19,242,706	15,468,468	48,346,746
17.1 Other liability—occurrence	29,842,773	14,636,540	14,440,500	30,038,813
17.2 Other liability—claims-made	1,272,343	572,038	540,578	1,303,803
17.3 Excess workers' compensation				
18.1 Products liability—occurrence	783,291	369,928	394,614	758,605
18.2 Products liability—claims-made				
19.1,19.2 Private passenger auto liability	113,168,763	44,065,784	49,902,964	107,331,583
19.3,19.4 Commercial auto liability	43,020,167	22,101,687	20,579,514	44,542,340
21. Auto physical damage	89,757,669	35,590,536	40,183,941	85,164,264
22. Aircraft (all perils)				
23. Fidelity	344,573	294,439	280,875	358,137
24. Surety	39,866,156	24,338,417	23,276,354	40,928,219
26. Burglary and theft	16,287	7,839	7,994	16,132
27. Boiler and machinery	40,304	3,316	5,370	38,250
28. Credit				
29. International				
30. Warranty				
31. Reinsurance-nonproportional assumed property				
32. Reinsurance-nonproportional assumed liability				
33. Reinsurance-nonproportional assumed financial lines				
34. Aggregate write-ins for other lines of business				
35. TOTALS	611,420,007	282,371,924	292,551,933	601,239,998

DETAILS OF WRITE-IN LINES				
3401.				
3402.				
3403.				
3498. Sum of remaining write-ins for Line 34 from overflow page				
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 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	6,318,407	3			6,318,410
2. Allied lines	5,801,051	5			5,801,056
3. Farmowners multiple peril	2,507,843	144			2,507,987
4. Homeowners multiple peril	56,507,047				56,507,047
5. Commercial multiple peril	50,971,086	1,590	(334,648)		50,638,028
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	4,668,934	198			4,669,132
10. Financial guaranty					
11.1 Medical professional liability—occurrence	14,372				14,372
11.2 Medical professional liablity—claims-made	987				987
12. Earthquake	1,013,742				1,013,742
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	16,339,546	167	(867,003)	(4,241)	15,468,469
17.1 Other liability—occurrence	14,325,318	68,463	46,719		14,440,500
17.2 Other liability—claims-made	569,838	2,416	(31,676)		540,578
17.3 Excess workers' compensation					
18.1 Products liability—occurrence	386,390	30	8,194		394,614
18.2 Products liability—claims-made					
19.1,19.2 Private passenger auto liability	49,902,964				49,902,964
19.3,19.4 Commercial auto liability	20,576,633	2,882			20,579,515
21. Auto physical damage	40,183,488	453			40,183,941
22. Aircraft (all perils)					
23. Fidelity	105,054	175,821			280,875
24. Surety	16,502,757	6,773,597			23,276,354
26. Burglary and theft	7,994				7,994
27. Boiler and machinery	5,370				5,370
28. Credit					
29. International					
30. Warranty					
31. Reinsurance-nonproportional assumed property					
32. Reinsurance-nonproportional assumed liability					
33. Reinsurance-nonproportional assumed financial lines					
34. Aggregate write-ins for other lines of business					
35. TOTALS	286,708,821	7,025,769	(1,178,414)	(4,241)	292,551,935
36. Accrued retrospective premiums based on experience					4,241
37. Earned but unbilled premiums					1,178,414
38. Balance (Sum of Lines 35 through 37)					293,734,590

DETAILS OF WRITE-IN LINES					
3401.					
3402.					
3403.					
3498. Sum of remaining write-ins for Line 34 from overflow page					
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)					

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B – PREMIUMS WRITTEN

Line of Business	1 Direct Business (a)	Reinsurance Assumed 2 From Affiliates	Reinsurance Assumed 3 From Non-Affiliates	Reinsurance Ceded 4 To Affiliates	Reinsurance Ceded 5 To Non-Affiliates	6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
1. Fire	2,261,642	12,031,553		2,261,642		12,031,553
2. Allied lines	1,902,180	10,627,755		1,902,180		10,627,755
3. Farmowners multiple peril	10,607,750	4,949,165		10,607,750		4,949,165
4. Homeowners multiple peril	79,294	105,614,750		79,294		105,614,750
5. Commercial multiple peril	157,564,345	103,631,469		157,564,345		103,631,469
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	821,732	9,840,165		821,732		9,840,165
10. Financial guaranty						
11.1 Medical professional liability--occurrence		41,087				41,087
11.2 Medical professional liability--claims-made		3,673				3,673
12. Earthquake	1,124,725	1,995,556		1,124,725		1,995,556
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	18,392,297	44,572,508		18,392,297		44,572,508
17.1 Other liability—occurrence	3,046,359	29,842,773		3,046,359		29,842,773
17.2 Other liability—claims-made	9,031	1,272,343		9,031		1,272,343
17.3 Excess workers' compensation						
18.1 Products liability—occurrence	411,419	783,291		411,419		783,291
18.2 Products liability—claims-made						
19.1,19.2 Private passenger auto liability	82,960	113,168,763		82,960		113,168,763
19.3,19.4 Commercial auto liability	24,291,588	43,020,167		24,291,588		43,020,167
21. Auto physical damage	5,320,824	89,757,669		5,320,824		89,757,669
22. Aircraft (all perils)						
23. Fidelity	41,943	344,573		41,943		344,573
24. Surety	(350)	39,866,156		(350)		39,866,156
26. Burglary and theft	17,270	16,287		17,270		16,287
27. Boiler and machinery	177,441	40,304		177,441		40,304
28. Credit						
29. International						
30. Warranty						
31. Reinsurance-nonproportional assumed property	X X X					
32. Reinsurance-nonproportional assumed liability	X X X					
33. Reinsurance-nonproportional assumed financial lines	X X X					
34. Aggregate write-ins for other lines of business						
35. TOTALS	226,152,450	611,420,007		226,152,450		611,420,007

DETAILS OF WRITE-IN LINES						
3401.						
3402.						
3403.						
3498. Sum of remaining write-ins for Line 34 from overflow page						
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 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

	Losses Paid Less Salvage				5	6	7	8
Line of Business	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)	Net Losses Unpaid Current Year (Part 2A, Col. 8)	Net Losses Unpaid Prior Year	Losses Incurred Current Year (Cols. 4 + 5 - 6)	Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
1. Fire	136,567	4,275,088	136,567	4,275,088	1,893,852	1,882,168	4,286,772	36.713
2. Allied lines	1,069,163	6,454,852	1,069,163	6,454,852	1,340,740	1,658,208	6,137,384	61.846
3. Farmowners multiple peril	4,645,397	2,568,473	4,645,397	2,568,473	881,582	947,039	2,503,016	52.330
4. Homeowners multiple peril	69,981	60,495,281	69,981	60,495,281	24,884,751	26,700,872	58,679,160	59.357
5. Commercial multiple peril	89,496,359	58,822,927	89,496,359	58,822,927	100,735,944	104,046,970	55,511,901	52.674
6. Mortgage guaranty								
8. Ocean marine		22		22		1,351	(1,329)	
9. Inland marine	62,202	3,238,525	62,202	3,238,525	526,085	570,207	3,194,403	32.816
10. Financial guaranty								
11.1 Medical professional liability—occurrence		4,519		4,519	166,781	150,791	20,509	47.674
11.2 Medical professional liability—claims-made					31,509	29,631	1,878	35.771
12. Earthquake					(11,611)	89	(11,700)	(0.585)
13. Group accident and health								
14. Credit accident and health (group and individual)								
15. Other accident and health		41,890		41,890	2,524,200	2,599,679	(33,589)	
16. Workers' compensation	14,183,211	34,549,671	14,183,211	34,549,671	170,797,144	165,070,947	40,275,868	83.306
17.1 Other liability—occurrence	2,632,302	8,370,094	2,632,302	8,370,094	50,848,736	48,007,925	11,210,905	37.321
17.2 Other liability—claims-made	68,979	434,597	68,979	434,597	1,844,572	2,007,275	271,894	20.854
17.3 Excess workers' compensation								
18.1 Products liability—occurrence	49,334	667,029	49,334	667,029	1,853,620	1,798,390	722,259	95.209
18.2 Products liability—claims-made								
19.1,19.2 Private passenger auto liability	1,398,250	60,776,365	1,398,250	60,776,365	72,149,957	75,093,122	57,833,200	53.883
19.3,19.4 Commercial auto liability	18,293,694	27,637,723	18,293,694	27,637,723	56,046,947	52,633,969	31,050,701	69.711
21. Auto physical damage	3,989,670	51,545,636	3,989,670	51,545,636	2,711,222	3,013,035	51,243,823	60.171
22. Aircraft (all perils)		19,048		19,048	19,570	25,937	12,681	
23. Fidelity		76,772		76,772	101,552	118,705	59,619	16.647
24. Surety		15,580,639		15,580,639	4,199,821	7,357,727	12,422,733	30.352
26. Burglary and theft		407		407	149	167	389	2.411
27. Boiler and machinery	4,105	(359)	4,105	(359)	1,312	(4,836)	5,789	15.135
28. Credit								
29. International								
30. Warranty								
31. Reinsurance-nonproportional assumed property	X X X							
32. Reinsurance-nonproportional assumed liability	X X X	396,305		396,305	1,575,441	11,095,433	(9,123,687)	
33. Reinsurance-nonproportional assumed financial lines	X X X							
34. Aggregate write-ins for other lines of business								
35. TOTALS	136,099,214	335,955,504	136,099,214	335,955,504	495,123,876	504,804,801	326,274,579	54.267

DETAILS OF WRITE-IN LINES								
3401.								
3402.								
3403.								
3498. Sum of remaining write-ins for Line 34 from overflow page								
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)								

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

	Reported Losses				Incurred But Not Reported			8	9
Line of Business	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded	Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	Net Unpaid Loss Adjustment Expenses
1. Fire	29,371	1,464,550	29,371	1,464,550	56,660	429,302	56,660	1,893,852	192,701
2. Allied lines	593,524	981,250	593,524	981,250	32,966	359,490	32,966	1,340,740	276,895
3. Farmowners multiple peril	1,052,211	811,677	1,052,211	811,677	131,542	69,905	131,542	881,582	311,794
4. Homeowners multiple peril		16,511,816		16,511,816	4,198	8,372,934	4,198	24,884,750	4,688,035
5. Commercial multiple peril	87,876,572	62,614,213	87,876,572	62,614,213	55,496,259	38,121,731	55,496,259	100,735,944	41,956,761
6. Mortgage guaranty									
8. Ocean marine									(1)
9. Inland marine	8,000	594,657	8,000	594,657	10,768	(68,573)	10,768	526,084	119,314
10. Financial guaranty									
11.1 Medical professional liablity—occurrence		24,007		24,007		142,774		166,781	85,946
11.2 Medical professional liablity—claims-made		2,800		2,800		28,709		31,509	6,946
12. Earthquake		44		44	(22,546)	(11,654)	(22,546)	(11,610)	858
13. Group accident and health								(a)	(143)
14. Credit accident and health (group and individual)									
15. Other accident and health		522,165		522,165		2,002,036		(a) 2,524,201	298,890
16. Workers' compensation	48,356,751	102,613,721	48,356,751	102,613,721	28,390,376	68,183,423	28,390,376	170,797,144	19,948,552
17.1 Other liability—occurrence	6,867,588	18,730,300	6,867,588	18,730,300	2,710,036	32,118,437	2,710,036	50,848,737	11,921,932
17.2 Other liability—claims-made	8,000	1,076,273	8,000	1,076,273	4,654	768,299	4,654	1,844,572	962,343
17.3 Excess workers' compensation									19
18.1 Products liability—occurrence	1,285,550	1,457,114	1,285,550	1,457,114	397,939	396,506	397,939	1,853,620	535,519
18.2 Products liability—claims-made									
19.1,19.2 Private passenger auto liability	13,529,292	62,862,389	13,529,292	62,862,389	333,384	9,287,568	333,384	72,149,957	16,975,355
19.3,19.4 Commercial auto liability	19,560,180	34,423,281	19,560,180	34,423,281	12,383,541	21,623,666	12,383,541	56,046,947	7,873,234
21. Auto physical damage	326,616	1,409,826	326,616	1,409,826	(56,081)	1,301,396	(56,081)	2,711,222	1,362,792
22. Aircraft (all perils)		19,439		19,439		131		19,570	830
23. Fidelity	2,415	(407)	2,415	(407)	(5,531)	101,959	(5,531)	101,552	46,601
24. Surety		(4,954,587)		(4,954,587)	25,756	9,154,408	25,756	4,199,821	5,660,074
26. Burglary and theft		47		47	134	102	134	149	767
27. Boiler and machinery	7,499	72	7,499	72	700	1,240	700	1,312	2,468
28. Credit									
29. International									
30. Warranty									
31. Reinsurance-nonproportional assumed property	XXX				XXX				
32. Reinsurance-nonproportional assumed liability	XXX				XXX	1,575,441		1,575,441	3,767
33. Reinsurance-nonproportional assumed financial lines	XXX				XXX				
34. Aggregate write-ins for other lines of business									
35. TOTALS	179,503,569	301,164,647	179,503,569	301,164,647	99,894,755	193,959,230	99,894,755	495,123,877	113,232,249

DETAILS OF WRITE-IN LINES									
3401.									
3402.									
3403.									
3498. Sum of remaining write-ins for Line 34 from overflow page									
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)									

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	14,225,109			14,225,109
1.2 Reinsurance assumed	28,804,302			28,804,302
1.3 Reinsurance ceded	14,225,109			14,225,109
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	28,804,302			28,804,302
2. Commission and brokerage:				
2.1 Direct, excluding contingent		33,186,346		33,186,346
2.2 Reinsurance assumed, excluding contingent		91,202,267		91,202,267
2.3 Reinsurance ceded, excluding contingent		33,186,346		33,186,346
2.4 Contingent—direct				
2.5 Contingent—reinsurance assumed		11,101,487		11,101,487
2.6 Contingent—reinsurance ceded				
2.7 Policy and membership fees				
2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)		102,303,754		102,303,754
3. Allowances to manager and agents	4,370	23,317		27,687
4. Advertising	309,086	3,384,521	1,981	3,695,588
5. Boards, bureaus and associations	235,605	1,137,326	100	1,373,031
6. Surveys and underwriting reports	7,779	3,941,294	34,555	3,983,628
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries	27,743,563	33,164,459	1,254,347	62,162,369
8.2 Payroll taxes	640,660	3,305,397	8,122	3,954,179
9. Employee relations and welfare	4,726,972	16,095,413	61,070	20,883,455
10. Insurance	1,217,968	451,282	28,916	1,698,166
11. Directors' fees	83	439		522
12. Travel and travel items	1,989,142	2,633,935	47,194	4,670,271
13. Rent and rent items	1,051,055	3,542,366	15,009	4,608,430
14. Equipment	948,586	2,397,647	21,493	3,367,726
15. Cost or depreciation of EDP equipment and software	170,126	2,187,839	42,703	2,400,668
16. Printing and stationery	415,704	530,460	3,564	949,728
17. Postage, telephone and telegraph, exchange and express	2,467,728	1,922,251	40,776	4,430,755
18. Legal and auditing	108,637	340,454	110,097	559,188
19. Totals (Lines 3 to 18)	42,037,064	75,058,400	1,669,927	118,765,391
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of $ 123,866		12,915,433		12,915,433
20.2 Insurance department licenses and fees		1,897,307		1,897,307
20.3 Gross guaranty association assessments		68,184		68,184
20.4 All other (excluding federal and foreign income and real estate)		1,430,131		1,430,131
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		16,311,055		16,311,055
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	3,677,271	3,007,371	363,402	7,048,044
25. Total expenses incurred	74,518,637	196,680,580	2,033,329	(a) 273,232,546
26. Less unpaid expenses—current year	113,232,251	31,306,779		144,539,030
27. Add unpaid expenses—prior year	111,621,344	28,671,422		140,292,766
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)	72,907,730	194,045,223	2,033,329	268,986,282

DETAILS OF WRITE-IN LINES				
2401. Other expenses	3,677,271	3,007,371	363,402	7,048,044
2402.				
2403.				
2498. Sum of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	3,677,271	3,007,371	363,402	7,048,044

(a) Includes management fees of $ 6,317,564 to affiliates and $ 65,906 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. Government bonds	(a) 4,070,146	4,244,051
1.1	Bonds exempt from U.S. tax	(a) 10,644,205	10,197,320
1.2	Other bonds (unaffiliated)	(a) 23,713,359	23,072,284
1.3	Bonds of affiliates	(a)	
2.1	Preferred stocks (unaffiliated)	(b) 682,000	682,000
2.11	Preferred stocks of affiliates	(b)	
2.2	Common stocks (unaffiliated)	1,326,962	1,300,743
2.21	Common stocks of affiliates		
3.	Mortgage loans	(c) 1,934,322	1,943,326
4.	Real estate	(d)	
5.	Contract loans		
6.	Cash, cash equivalents and short-term investments	(e) 70,046	71,405
7.	Derivative instruments	(f)	
8.	Other invested assets		
9.	Aggregate write-ins for investment income	304,483	304,483
10.	Total gross investment income	42,745,523	41,815,612
11.	Investment expenses		(g) 2,033,330
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g)
13.	Interest expense		(h)
14.	Depreciation on real estate and other invested assets		(i)
15.	Aggregate write-ins for deductions from investment income		
16.	Total deductions (Lines 11 through 15)		2,033,330
17.	Net investment income (Line 10 minus Line 16)		39,782,282

	DETAILS OF WRITE-IN LINES		
0901.	Miscellaneous Income/(Expense)	304,483	304,483
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)	304,483	304,483
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 $ 736,127 accrual of discount less $ 4,799,866 amortization of premium and less $ 571,219 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 $ 6,068 paid for accrued interest on purchases.
(d) Includes $ 0 for company's occupancy of its own buildings; and excludes $ 0 interest on encumbrances.
(e) Includes $ 15,623 accrual of discount less $ 0 amortization of premium and less $ 0 paid for accrued interest on purchases.
(f) Includes $ 0 accrual of discount less $ 0 amortization of premium.
(g) Includes $ 0 investment expenses and $ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
(h) Includes $ 0 interest on surplus notes and $ 0 interest on capital notes.
(i) Includes $ 0 depreciation on real estate and $ 0 depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1.	U.S. Government bonds					
1.1	Bonds exempt from U.S. tax	1,230,186		1,230,186		
1.2	Other bonds (unaffiliated)	7,890,970	(76,930)	7,814,040	2,144,109	
1.3	Bonds of affiliates					
2.1	Preferred stocks (unaffiliated)	(37)	(1,482,946)	(1,482,983)	8,200	
2.11	Preferred stocks of affiliates					
2.2	Common stocks (unaffiliated)	1,855,428		1,855,428	5,013,725	
2.21	Common stocks of affiliates				547,302	
3.	Mortgage loans					
4.	Real estate					
5.	Contract loans					
6.	Cash, cash equivalents and short-term investments					
7.	Derivative instruments					
8.	Other invested assets				(2,012)	
9.	Aggregate write-ins for capital gains (losses)					
10.	Total capital gains (losses)	10,976,547	(1,559,876)	9,416,671	7,711,324	

	DETAILS OF WRITE-IN LINES					
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)					

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks			
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	120,525	86,730	(33,795)
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. Derivatives (Schedule DB)			
8. Other invested assets (Schedule BA)			
9. Receivables for securities			
10. Securities lending reinvested collateral assets (Schedule DL)			
11. Aggregate write-ins for invested assets			
12. Subtotals, cash and invested assets (Lines 1 to 11)	120,525	86,730	(33,795)
13. Title plants (for Title insurers only)			
14. Investment income due and accrued			
15. Premiums and considerations:			
15.1 Uncollected premiums and agents' balances in the course of collection	2,918,570	2,899,311	(19,259)
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	143,144	35,078	(108,066)
15.3 Accrued retrospective premiums	424	28,701	28,277
16. Reinsurance:			
16.1 Amounts recoverable from reinsurers			
16.2 Funds held by or deposited with reinsured companies			
16.3 Other amounts receivable under reinsurance contracts			
17. Amounts receivable relating to uninsured plans			
18.1 Current federal and foreign income tax recoverable and interest thereon			
18.2 Net deferred tax asset	35,596,570	29,201,570	(6,395,000)
19. Guaranty funds receivable or on deposit			
20. Electronic data processing equipment and software			
21. Furniture and equipment, including health care delivery assets			
22. Net adjustment in assets and liabilities due to foreign exchange rates			
23. Receivables from parent, subsidiaries and affiliates			
24. Health care and other amounts receivable			
25. Aggregate write-ins for other than invested assets	729,291	676,858	(52,433)
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	39,508,524	32,928,248	(6,580,276)
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
28. Total (Lines 26 and 27)	39,508,524	32,928,248	(6,580,276)

DETAILS OF WRITE-IN LINES			
1101.			
1102.			
1103.			
1198. Summary of remaining write-ins for Line 11 from overflow page			
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)			
2501. Other assets	729,291	676,858	(52,433)
2502.			
2503.			
2598. Summary of remaining write-ins for Line 25 from overflow page			
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	729,291	676,858	(52,433)

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 Indiana, the accompanying financial statements of American Economy 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 applies the following accounting policies, where applicable:

1. Short term investments are carried at cost, adjusted where appropriate for amortization of premium or discount, or fair value 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 fair value as specified by the SVO Manual.

3. Common stocks are carried at fair value, except that investments in stocks of subsidiaries, controlled and affiliated ("SCA") companies are carried according to Note 1C(7).

4. Preferred stocks are carried at cost or fair value as specified by the SVO Manual. Preferred stocks of SCA companies are carried according to Note 1C(7).

5. Mortgage loans are carried at unpaid principal balances, less impairments as specified by the SVO Manual.

6. Mortgage backed/asset backed securities are carried at amortized cost or fair value 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. Investments in SCA companies are carried in accordance with SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities*, and the SVO Manual.

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. Investment income is anticipated as a factor in the premium deficiency calculation, in accordance with SSAP No. 53, *Property Casualty Contracts - Premiums*. Refer to Note 30.

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 2012.

13. The Company has no pharmaceutical rebate receivables.

Note 2 - Accounting Changes and Correction of Errors

Effective January 1, 2012, the Company adopted SSAP No. 101, *Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10* ("SSAP No. 101"). There was no cumulative effect adjustment resulting from the adoption of SSAP No. 101.

NOTES TO FINANCIAL STATEMENTS

Note 3 - Business Combinations and Goodwill

A. Statutory Purchase Method

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

B. Statutory Mergers

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

C. Impairment Loss

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

Note 4 - Discontinued Operations

The Company has no discontinued operations.

Note 5 - Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans

1. The maximum and minimum lending rates for commercial mortgage loans during 2012 were 6.63% and 4.13% respectively.

2. During 2012, the Company did not reduced interest rates of outstanding mortgage loans.

3. The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages was 75%

		Current Year	Prior Year
4.	As of year end, the Company held mortgages with interest more than 180 days past due with a recorded investment excluding accrued interest	$ -	$ -
	a. Total interest due on mortgages with interest more than 180 days past due	$ -	$ -
5.	Taxes, assessments and any amounts advanced and not included in the mortgage loan total	$822	$1,546
6.	Current year impaired loans with a related allowance for credit losses	$ -	$ -
	a. Related allowance for credit losses	$ -	$ -
7.	Impaired Mortgage loans without an allowance for credit losses	$5,502	$5,578
8.	Average recorded investment in impaired loans	$ -	$ -
9.	Amount of interest income recognized within that period that the loans were impaired	$291	$ -
10.	Amount of interest income recognized on a cash basis during the time within that period the loans were impaired	$294	$ -
11.	Allowance for credit losses:		
	a. Balance at beginning of period	$ -	$ -
	b. Additions charged to operations	$ -	$ -
	c. Direct write-downs charged against the allowances	$ -	$ -
	d. Recoveries of amounts previously charged off	$ -	$ -
	e. Balance at end of period	$ -	$ -

12. The Company recognizes interest income on its impaired loans upon receipt.

B. Troubled Debt Restructuring for Creditors

		Current Year	Prior Year
1.	The total recorded investment in restructured loans, as of year end	$5,502	$5,578
2.	The realized capital losses related to these loans	$ -	$ -
3.	Total contractual commitments to extend credit to debtors owing receivables whose terms have been modified in troubled debt restructurings	$ -	$ -

4. The Company accrues interest income on impaired loans to the extent it is deemed collectible and the loan continues to perform under its original or restructured contractual terms. Interest income on non performing loans is generally recognized on a cash basis

C. Reverse Mortgages

The company has no reverse mortgages.

NOTES TO FINANCIAL STATEMENTS

D. Loan Backed Securities

1. Prepayment speed assumptions are updated monthly with data sourced from the Bloomberg data service.

2. All Loan Backed Securities with a recognized other-than-temporary impairment disclosed in the aggregate during 2012 as of December 31, 2012: None

3. Each Loan Backed Security with a recognized other-than-temporary impairment held by the Company at December 31, 2012:

1	2	3	4	5	6	7
CUSIP	Book/Adj Carrying Value Amortized cost before current period OTTI	Projected Cash Flows	Recognized other-than-temporary impairment	Amortized cost after other-than-temporary impairment	Fair Value at time of OTTI	Date of Financial Statement Where Report
59023XAB2	463,616	405,530	58,086	405,530	406,130	3/31/2009
59023XAB2	304,430	264,229	40,201	264,229	210,340	12/31/2009
59023XAB2	250,379	216,661	33,718	216,661	173,560	12/31/2009
59023XAB2	195,487	190,655	4,832	190,655	155,328	3/31/2010
59023XAB2	161,922	158,021	3,901	158,021	125,395	3/31/2010
59023XAB2	314,745	302,668	12,077	302,668	279,755	9/30/2010
59023XAB2	138,481	137,021	1,460	137,021	94,984	9/30/2011
59023XAB2	101,208	98,118	3,090	98,118	76,680	9/30/2011
59023XAB2	126,390	115,922	10,468	115,922	91,878	12/31/2011
59023XAB2	90,535	81,192	9,343	81,192	74,173	12/31/2011
59023XAB2	102,478	96,330	6,149	96,330	86,488	3/31/2012
59023XAB2	71,718	69,541	2,177	69,541	69,821	3/31/2012
59023XAB2	84,665	73,899	10,766	73,899	45,956	6/30/2012
59023XAB2	61,548	43,694	17,854	43,694	37,100	6/30/2012
59023XAB2	40,325	34,847	5,478	34,847	31,010	9/30/2012
59023XAB2	61,486	53,954	7,532	53,954	38,412	9/30/2012
59023XAB2	52,594	51,842	753	51,842	39,516	12/31/2012
61749BAB9	483,844	459,588	24,257	459,588	295,000	12/31/2009
61749BAB9	298,907	191,503	107,404	191,503	238,152	12/31/2009
61749BAB9	404,245	400,674	3,571	400,674	326,903	3/31/2010
61749BAB9	162,702	159,819	2,883	159,819	263,907	3/31/2010
61749BAB9	326,309	324,728	1,581	324,728	301,732	12/31/2010
61749BAB9	186,016	174,620	11,396	174,620	164,035	9/30/2012
61749BAB9	126,416	111,591	14,826	111,591	106,214	12/31/2012

4. All impaired Loan Backed Securities for which an other-than-temporary impairment has not been recognized in earnings as a realized loss as of December 31, 2012:

a. The aggregate amount of unrealized losses:

1.	Less than 12 Months	$	(30,547)
2.	12 Months or Longer	$	(237,261)

b. The aggregate related fair value of securities With unrealized losses:

1.	Less than 12 Months	$	1,599,717
2.	12 Months or Longer	$	2,046,616

5. The Company reviews fixed income securities for impairment on a quarterly basis. Securities are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer, (d) significant change in the business climate or credit ratings of the issuer, (e) general market conditions and volatility, (f) industry factors, and (g) the past impairment of the security holding or the issuer. If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' surplus. If the decline is believed to be "other-than-temporary," and the Company believes it will not be able to collect all cash flows due on its fixed income securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment.

E. Repurchase Agreements and Securities Lending

The Company did not have any open securities lending positions as of December 31, 2012.

NOTES TO FINANCIAL STATEMENTS

F. Real Estate

The Company does not hold any investments in real estate.

G. Investments in Low-Income Housing Tax Credits

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

Note 6 - Joint Ventures, Partnerships & Limited Liability Companies

A. Investments in joint ventures, partnerships and limited liability companies that exceed 10% of its admitted assets

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

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

The Company does not own any investments in joint ventures, partnerships, and limited liability companies.

Note 7 - Investment Income

A. Accrued Investment Income

The Company does not admit investment income due and accrued if amounts are over 90 days past due (over 180 days for mortgage loans in default).

B. Amounts Nonadmitted

No amounts were excluded as of December 31, 2012.

Note 8 - Derivative Instruments

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

Note 9 - Income Taxes

A. The components of the net deferred tax asset/(liability) at December 31 are as follows:

1.

	12/31/2012		
	(1) Ordinary	(2) Capital	(3) (Col 1+2) Total
(a) Gross Deferred Tax Assets	$ 55,990,100	$ 1,866,900	$ 57,857,000
(b) Statutory Valuation Allowance Adjustments	-	-	-
(c) Adjusted Gross Deferred Tax Assets (1a – 1b)	55,990,100	1,866,900	57,857,000
(d) Deferred Tax Assets Nonadmitted	35,596,570	-	35,596,570
(e) Subtotal Net Admitted Deferred Tax Asset (1c – 1d)	20,393,530	1,866,900	22,260,430
(f) Deferred Tax Liabilities	3,615,323	5,779,677	9,395,000
(g) Net Admitted Deferred Tax Asset (Net Deferred Tax Liability) (1e – 1f)	$ 16,778,207	$ (3,912,777)	$ 12,865,430

	12/31/2011		
	(4) Ordinary	(5) Capital	(6) (Col 4+5) Total
(a) Gross Deferred Tax Assets	$ 61,256,869	$ 1,769,131	$ 63,026,000
(b) Statutory Valuation Allowance Adjustments	-	-	-
(c) Adjusted Gross Deferred Tax Assets (1a – 1b)	61,256,869	1,769,131	63,026,000
(d) Deferred Tax Assets Nonadmitted	28,799,889	401,681	29,201,570
(e) Subtotal Net Admitted Deferred Tax Asset (1c – 1d)	32,456,980	1,367,450	33,824,430
(f) Deferred Tax Liabilities	4,474,550	1,367,450	5,842,000
(g) Net Admitted Deferred Tax Asset (Net Deferred Tax Liability) (1e – 1f)	$ 27,982,430	$ -	$ 27,982,430

NOTES TO FINANCIAL STATEMENTS

	Change		
	(7) (Col 1-4) Ordinary	(8) (Col 2-5) Capital	(9) (Col 7+8) Total
(a) Gross Deferred Tax Assets	$ (5,266,769)	$ 97,769	$ (5,169,000)
(b) Statutory Valuation Allowance Adjustments	-	-	-
(c) Adjusted Gross Deferred Tax Assets (1a – 1b)	(5,266,769)	97,769	(5,169,000)
(d) Deferred Tax Assets Nonadmitted	6,796,681	(401,681)	6,395,000
(e) Subtotal Net Admitted Deferred Tax Asset (1c – 1d)	(12,063,450)	499,450	(11,564,000)
(f) Deferred Tax Liabilities	(859,227)	4,412,227	3,553,000
(g) Net Admitted Deferred Tax Asset (Net Deferred Tax Liability) (1e – 1f)	$ (11,204,223)	$ (3,912,777)	$ (15,117,000)

2.

	12/31/2012		
	(1) Ordinary	(2) Capital	(3) (Col 1+2) Total
Admission Calculation Components SSAP No. 101			
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks	$ 10,577,000	$ -	$ 10,577,000
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From 2(a) above) After Application of the Threshold Limitation (The Lesser of 2(b)1 and 2(b)2 Below)	2,288,430	-	2,288,430
1. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date.	2,288,430	-	2,288,430
2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold.			27,906,114
(c) Adjusted Gross Deferred Tax Assets (Excluding The Amount of Deferred Tax Assets From 2(a) and 2(b) above) Offset by Gross Deferred Tax Liabilities	3,615,323	5,779,677	9,395,000
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101 (2(a) + 2(b) + 2(c))	$ 16,480,753	$ 5,779,677	$ 22,260,430

	12/31/2011		
	(4) Ordinary	(5) Capital	(6) (Col 4+5) Total
Admission Calculation Components SSAP No. 101			
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks	$ -	$ -	$ -
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From 2(a) above) After Application of the Threshold Limitation (The Lesser of 2(b)1 and 2(b)2 Below)	27,982,430	-	27,982,430
1. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date.	40,071,250	-	40,071,250
2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold.			27,982,430
(c) Adjusted Gross Deferred Tax Assets (Excluding The Amount of Deferred Tax Assets From 2(a) and 2(b) above) Offset by Gross Deferred Tax Liabilities	4,474,550	1,367,450	5,842,000
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101 (2(a) + 2(b) + 2(c))	$ 32,456,980	$ 1,367,450	$33,824,430

NOTES TO FINANCIAL STATEMENTS

	Change		
	(7) (Col 1-4) Ordinary	(8) (Col 2-5) Capital	(9) (Col 7+8) Total
Admission Calculation Components SSAP No. 101			
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks	$ 10,577,000	$ -	$ 10,577,000
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From 2(a) above) After Application of the Threshold Limitation (The Lesser of 2(b)1 and 2(b)2 Below)	(25,694,000)	-	(25,694,000)
1. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date.	(37,782,820)	-	(37,782,820)
2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold.			(76,316)
(c) Adjusted Gross Deferred Tax Assets (Excluding The Amount of Deferred Tax Assets From 2(a) and 2(b) above) Offset by Gross Deferred Tax Liabilities	(859,227)	4,412,227	3,553,000
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101. Total (2(a) + 2(b) + 2(c))	$ (15,976,227)	$ 4,412,227	$ (11,564,000)

3.

	2012	2011
(a) Ratio Percentage Used To Determine Recovery Period And Threshold Limitation Amount.	325.81%	390.38%
(b) Amount of Adjusted Capital And Surplus Used To Determine Recovery Period And Threshold Limitation In 2(b)2 Above.	173,432,465	206,047,603

4.

	12/31/2012			12/31/2011			Change		
	(1) Ordinary Percent	(2) Capital Percent	(3) (Col 1+2) Total Percent	(4) Ordinary Percent	(5) Capital Percent	(6) (Col 4+5) Total Percent	(7) (Col 1-4) Ordinary	(8) (Col 2-5) Capital Percent	(9) (Col 7+8) Total Percent
Impact of Tax-Planning Strategies									
(a) Adjusted Gross DTAs (% of Total Adjusted Gross DTAs)	0%	0%	0%	0%	0%	0%	0%	0%	0%
(b) Net Admitted Adjusted Gross DTAs (% of Total Net Admitted Adjusted Gross DTAs)	0%	0%	0%	0%	0%	0%	0%	0%	0%

(c) Does the Company's tax-planning strategies include the use of reinsurance: Yes ___ No _X_

B. The Company does not have any DTLs described in SSAP No. 101 Income Taxes, a Replacement of SSAP No. 10R and SSAP No. 10, paragraph 23.

C. Current income taxes incurred consist of the following major components:

	(1) 12/31/2012	(2) 12/31/2011	(3) (Col 1-2) Change
1. Current Income Tax			
(a) Federal	$ 7,121,165	$ (2,034,622)	$ 9,155,787
(b) Foreign	-	-	-
(c) Subtotal	7,121,165	(2,034,622)	9,155,787
(d) Federal income tax on net capital gains	3,295,835	706,622	2,589,213
(e) Utilization of capital loss carry-forwards	-	-	-
(f) Other	-	-	-
(g) Federal and foreign income tax incurred	$ 10,417,000	$ (1,328,000)	$ 11,745,000
2. Deferred Tax Assets:			
(a) Ordinary			
(1) Discounting of unpaid losses	$ 16,839,000	$ 17,612,000	$ (773,000)
(2) Unearned premium reserve	20,678,000	19,890,000	788,000
(3) Policyholder reserves	-	-	-
(4) Investments	453,000	255,000	198,000
(5) Deferred acquisition costs	-	-	-
(6) Policyholder dividends accrual	-	-	-

NOTES TO FINANCIAL STATEMENTS

(7) Fixed Assets	424,000	934,000	(510,000)
(8) Compensation and benefits accrual	3,748,000	3,906,000	(158,000)
(9) Pension accrual	709,000	1,130,000	(421,000)
(10) Receivables – nonadmitted	1,369,000	1,304,000	65,000
(11) Net operating loss carry-forward	6,494,000	6,518,000	(24,000)
(12) Tax credit carry-forward	2,497,000	2,497,000	-
(13) Other (including items <5% of total ordinary tax assets)	2,779,100	7,210,869	(4,431,769)
(99) Subtotal	55,990,100	61,256,869	(5,266,769)
(b) Statutory valuation allowance adjustment	-	-	-
(c) Nonadmitted	35,596,570	28,799,889	6,796,681
(d) Admitted ordinary deferred tax assets (2a99 – 2b – 2c)	20,393,530	32,456,980	(12,063,450)
(e) Capital			
(1) Investments	1,866,900	1,769,131	97,769
(2) Net capital loss carry-forward	-	-	-
(3) Real estate	-	-	-
(4) Other (including items <5% of total capital tax assets)	-	-	-
(99) Subtotal	1,866,900	1,769,131	97,769
(f) Statutory valuation allowance adjustment	-	-	-
(g) Nonadmitted	-	401,681	(401,681)
(h) Admitted capital deferred tax assets (2e99 – 2f – 2g)	1,866,900	1,367,450	499,450
(i) Admitted deferred tax assets (2d + 2h)	22,260,430	33,824,430	(11,564,000)
3. Deferred Tax Liabilities:			
(a) Ordinary			
(1) Investments	2,297,000	1,872,000	425,000
(2) Fixed assets	105,000	590,000	(485,000)
(3) Deferred and uncollected premium	-	-	-
(4) Policyholder reserves	-	-	-
(5) Other (including items <5% of total capital tax liabilities)	1,213,323	2,012,550	(799,227)
(99) Subtotal	3,615,323	4,474,550	(859,227)
(b) Capital:			
(1) Investments	5,779,677	1,367,450	4,412,227
(2) Real estate	-	-	-
(3) Other (including items <5% of total capital tax liabilities)	-	-	-
(99) Subtotal	5,779,677	1,367,450	4,412,227
(c) Deferred tax liabilities (3a99 + 3b99)	9,395,000	5,842,000	3,553,000
4. Net deferred tax assets/liabilities (2i – 3c)	$ 12,865,430	$ 27,982,430	$ (15,117,000)

D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax exempt interest, goodwill, unearned premium reserves, discounting of unpaid losses and LAE reserves, allowance for doubtful accounts, and deferred intercompany transactions.

E. The Company has net operating loss carry-forwards which expire as follows:

Year Generated	Amount	Expiration
2011	$ 18,554,000	2031

The Company has alternative minimum tax credit carry-forwards of $2,497,000. The alternative minimum tax credit carry-forward does not expire.

The amount of Federal income taxes incurred and available for recoupment in the event of future losses are none from the current year and none from the preceding year.

The Company does not have deposits admitted under Section 6603 of the Internal Revenue Code.

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

AMBCO Capital Corporation
America First Insurance Company
America First Lloyd's Insurance Company
American Economy Insurance Company
Liberty Mutual Insurance Company
Liberty Mutual Personal Insurance Company
Liberty Northwest Insurance Corporation
Liberty Personal Insurance Company

NOTES TO FINANCIAL STATEMENTS

American Fire and Casualty Company
American States Insurance Company
American States Insurance Company of Texas
American States Lloyds Insurance Company
American States Preferred Insurance Company
Barrier Ridge LLC
Berkeley Holding Company Associates, Inc.
Berkeley Management Corporation
Bridgefield Casualty Insurance Company
Bridgefield Employers Insurance Company
Capitol Court Corporation
Cascade Disability Management, Inc.
Colorado Casualty Insurance Company
Commercial Aviation Insurance, Inc.
Consolidated Insurance Company
Copley Venture Capital, Inc.
Diversified Settlements, Inc.
Emerald City Insurance Agency, Inc.
Employers Insurance Company of Wausau
Excelsior Insurance Company
F.B. Beattie & Co., Inc.
First National Insurance Company of America
First State Agency Inc.
General America Corporation
General America Corporation of Texas
General Insurance Company of America
Golden Eagle Insurance Corporation
Gulf States AIF, Inc.
Hawkeye-Security Insurance Company
Heritage-Summit HealthCare, LLC
Indiana Insurance Company
Insurance Company of Illinois
LEXCO Limited
Liberty-USA Corporation
Liberty Assignment Corporation
Liberty Energy Canada, Inc.
Liberty Financial Services, Inc.
Liberty Hospitality Group, Inc.
Liberty Insurance Corporation
Liberty Insurance Holdings, Inc.
Liberty Insurance Underwriters Inc.
Liberty International Europe Inc.
Liberty International Holdings Inc.
Liberty Life Assurance Company of Boston
Liberty Life Holdings Inc.
Liberty Lloyds of Texas Insurance Company
Liberty Management Services, Inc.
Liberty Mexico Holdings Inc.
Liberty Mutual Agency Corporation
Liberty Mutual Fire Insurance Company
Liberty Mutual Group Asset Management Inc.
Liberty Mutual Group Inc.
Liberty Mutual Holding Company Inc.
Liberty RE (Bermuda) Limited
Liberty Sponsored Insurance (Vermont), Inc.
Liberty Surplus Insurance Corporation
LIH-RE of America Corporation
LIU Specialty Insurance Agency Inc.
LM General Insurance Company
LM Insurance Corporation
LM Property & Casualty Insurance Company
LMHC Massachusetts Holdings Inc.
LRE Properties, Inc.
Mid-American Fire & Casualty Company
North Pacific Insurance Company
Ocasco Budget, Inc.
OCI Printing, Inc.
Ohio Casualty Corporation
Ohio Security Insurance Company
Open Seas Solutions, Inc.
Oregon Automobile Insurance Company
Peerless Indemnity Insurance Company
Peerless Insurance Company
Pilot Insurance Services, Inc.
Rianoc Research Corporation
S.C. Bellevue, Inc.
SAFECARE Company, Inc.
Safeco Corporation
Safeco General Agency, Inc.
Safeco Insurance Company of America
Safeco Insurance Company of Illinois
Safeco Insurance Company of Indiana
Safeco Insurance Company of Oregon
Safeco Lloyds Insurance Company
Safeco National Insurance Company
Safeco Properties, Inc.
Safeco Surplus Lines Insurance Company
San Diego Insurance Company
SCIT, Inc.
St. James Insurance Company Ltd.
Summit Consulting, LLC
Summit Consulting, Inc. of Louisiana
Summit Holding Southeast, Inc.
The First Liberty Insurance Corporation
The Midwestern Indemnity Company
The National Corporation
The Netherlands Insurance Company
The Ohio Casualty Insurance Company
Wausau Business Insurance Company
Wausau General Insurance Company
Wausau Underwriters Insurance Company
West American Insurance Company
Winmar Company, Inc.
Winmar of the Desert, Inc.
Winmar Oregon, Inc.
Winmar-Metro, Inc.

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.

G. The Company does not expect the Federal and Foreign income tax loss contingencies, as determined in accordance with SSAP No. 5R, Liabilities, Contingencies and Impairments of Assets, with the modifications provided in SSAP No. 101, Income Taxes – A Replacement of SSAP No. 10R and SSAP No. 10, to significantly increase within twelve months of the reporting date.

NOTES TO FINANCIAL STATEMENTS

Note 10 - Information Concerning Parent, Subsidiaries and Affiliates

A. All of the outstanding shares of capital stock of the Company are held by Safeco Corporation ("Safeco"), an insurance holding company incorporated in Washington. Safeco is wholly owned by Liberty Mutual Agency Corporation, an insurance holding company incorporated in Delaware. Liberty Mutual Agency 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 insurance company. The ultimate parent of LMIC is Liberty Mutual Holding Company Inc., a Massachusetts company.

B. Transactions between the Company and its affiliates are listed on Schedule Y Part 2.

C. For the year ended December 31, 2012, the Company had the following capital transaction with its parent:

Received capital contributions of $14,164,540.

D. At December 31, 2012, the Company reported a net $4,446,764 due to affiliates. In general, the terms of the intercompany arrangements require settlement at least quarterly.

E. The Company has not made any guarantees or initiated any undertakings for the benefit of affiliates which result in a material contingent exposure of the Company's or affiliates' assets or liabilities.

F. Refer to Note 26 for information regarding the Amended and Restated Reinsurance Pooling Agreement.

The Company is a party to a management services agreement (the "Agreement") with Peerless Insurance Company ("PIC"). The Agreement allows PIC to provide services related to common management function including, but not limited to, coordinating marketing and advertising, information systems support, payroll and human resource services, actuarial support, accounting and other financial services, as well as consulting and other services as the parties may request.

The Company is a party to an investment management agreement and a cash management agreement with Liberty Mutual Group Asset Management Inc. ("LMGAM") and an investment management agreement with Liberty Mutual Investment Advisors LLC ("LMIA"). Under these agreements, LMGAM and LMIA provide services to the Company.

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

The Company is party to revolving credit agreements under which the Company may lend funds to the following affiliated companies for the purpose of accommodating fluctuations in daily cash flow and to promote efficient management of investments:

Company	***Credit Line***
Liberty Mutual Insurance Company	$100,000,000
Safeco Insurance Company of America	$50,000,000

There were no outstanding loans as of December 31, 2012.

The Company is party to a revolving credit agreement under which the Company may borrow funds from the following affiliated company for the purpose of accommodating fluctuations in daily cash flow and to promote efficient management of investments:

Company	***Credit Line***
Safeco Insurance Company of America	$50,000,000

There were no outstanding borrowings as of December 31, 2012.

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

H. The Company does not own shares of any upstream intermediate or ultimate parent, either directly or indirectly via a downstream subsidiary, controlled or affiliated company.

I. The Company does not own investments in subsidiary, controlled or affiliated companies.

J. The Company does not own investments in subsidiary, controlled or affiliated companies, as such no impairments were recognized.

K. The Company does not hold any investments in foreign insurance subsidiaries.

L. The Company does not hold any investments in downstream non-insurance holding companies.

Note 11 - Debt

A. Debt (Including Capital Notes)

The Company has no debt, including capital notes.

B. Federal Home Loan Bank Agreements

The Company has not entered into any agreements with the Federal Home Loan Bank.

NOTES TO FINANCIAL STATEMENTS

Note 12 - Retirement Plans, Deferred Compensation, Compensated Absences, Post Employment Benefits and Other Postretirement Benefit Plans

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

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

1. The Company has 1,000,000 shares authorized, issued and outstanding as of December 31, 2012. All shares have a stated par value of $5.

2. Preferred Stock

   Not applicable

3. There are no dividend restrictions.

4. The Company paid dividends to its parent in 2012 of:

	Ordinary	Extraordinary	Total Dividends
March	$10,000,000	$ -	$10,000,000
June	-	-	-
September	-	-	-
December	1,546,020	86,453,980	88,000,000
Total	$ 11,546,020	$86,453,980	$ 98,000,000

5. The Company cannot pay a dividend in 2013 without the prior approval of the Insurance Commissioner, as its unassigned surplus is negative.

6. As of December 31, 2012, the Company has restricted surplus of $982,646 resulting from retroactive reinsurance contracts.

7. The Company had no advances to surplus.

8. The Company does not hold stock for special purposes.

9. The Company had changes in special surplus funds resulting from prior year's retroactive reinsurance contracts during 2012.

10. The portion of unassigned funds (surplus) represented by cumulative net unrealized gains is $26,597,872 after applicable deferred taxes of $2,131,627.

11. Surplus Notes

    Not applicable

12. Quasi-reorganization (dollar impact)

    Not applicable

13. Quasi-reorganization (effective date)

    Not applicable

Note 14 - Contingencies

A. Contingent Commitments

   Refer to Note 10E.

B. Assessments

   The Company is subject to guaranty fund and other assessments by the states in which it writes business. Guaranty fund assessments and premium-based assessments are presumed probable when the premium on which the assessments are expected to be based are written. In the case of loss-based assessments, the event that obligates the entity is an entity incurring the losses on which the assessments are expected to be based.

   The Company has accrued a liability for guaranty funds and other assessments of $1,944,515 that is offset by future premium tax credits of $255,913. Current assessments are expected to be paid out in the next two years, while premium tax offsets are expected to be realized in the next eleven years, beginning in 2013. During 2012 there were no material insolvencies to report. The Company continues to remit payments relating to prior year insolvencies.

NOTES TO FINANCIAL STATEMENTS

Reconciliation of paid and accrued premium tax offsets and policy surcharges at prior year-end to current year-end:

a.	Assets recognized from paid and accrued premium tax offsets and policy surcharges prior year-end	$ 293,823
b.	Decreases current year: Premium tax offset applied	37,910
c.	Increases current year: Premium tax offset increase	-
d.	Assets recognized from paid and accrued premium tax offsets and policy surcharges current year-end	$ 255,913

C. Gain Contingencies

Not applicable

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

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

E. Product Warranties

The Company does not write product warranty business.

F. 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 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. Lessee Leasing Arrangements

1. The Company leases office space, plant and equipment under various non-cancelable operating lease arrangements.

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

Year Ending December 31,	Operating Leases
2013	$ 2,417,245
2014	2,316,716
2015	1,817,986
2016	1,605,633
2017	1,168,500
2018 & thereafter	634,758
Total	$ 9,960,838

   The amount of liability the Company recognized in its financial statements for lease agreements for which it is no longer using the leased property benefits is $759,091.

2. The Company is not involved in any material sales-leaseback transactions.

B. Leasing as a Significant Part of Lessor's Business Activities

Leasing is not a significant part of the Company's business activities.

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 concentration of credit risk.

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

A. Transfers of Receivables Reported as Sales

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

NOTES TO FINANCIAL STATEMENTS

B. Transfers and Servicing of Financial Assets

The Company participates in a Securities Lending Program to generate additional income, whereby certain fixed income and mortgage backed 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, such as Treasuries and Agency Bonds. 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 an asset with an offsetting liability on the balance sheet, as the collateral is unrestricted and the Company can exercise discretion as to how the collateral is invested. The loaned securities remain a recorded asset of the Company.

The Company does not have any open security lending positions as of December 31, 2012.

C. Wash Sales

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

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

A. Administrative Services Only (ASO) Plans

Not applicable

B. Administrative Services Contract (ASC) Plans

In 2008, certain members of the PIC Amended and Restated Reinsurance Pooling Agreement (refer to Note 26) agreed to become participating insurers of the California Earthquake Authority ("CEA"), a publicly-managed, privately funded organization that provides residential earthquake insurance in California. As participating insurers of the CEA, the companies act as third party administrators and perform certain administrative services on behalf of the CEA, including underwriting, policy issuance, premium collection, and claims payment. The CEA reimburses the companies for commissions and claims paid on behalf of the CEA. The companies also receive an administrative fee equal to 3.43% of premium and 9% of claims paid. These administrative fees are subject to the inter-company pooling agreement. In 2012, the Company recorded net CEA administrative fees of $61,313.

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 or produced through managing general agents or third party administrators.

Note 20 - Fair Value Measurements

A. Inputs Used for Assets and Liabilities Measured at Fair Value

1. Fair Value Measurements by Levels 1, 2 and 3

Fair value is the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company primarily uses the market approach which generally utilizes market transaction data for identical or similar instruments.

The hierarchy level assigned to each security in the Company's portfolio is based on the Company's assessment of the transparency and reliability of the inputs used in the valuation of each instrument at the measurement date. The highest priority is given to Level 1 measurements and the lowest priority to Level 3 measurements. Securities are classified based on the lowest level of input that is significant to the fair value measurement. The Company recognizes transfers between levels at the end of each reporting period. The three hierarchy levels are defined as follows:

- Level 1 — Valuations based on unadjusted observable quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

- Level 2 — Valuations based on directly or indirectly observable inputs (other than Level 1 prices) at the measurement date, such as quoted prices in active markets or prices in markets that are not active for similar assets or liabilities or other inputs that are observable.

- Level 3 — Valuations based on inputs that are unobservable and reflect the Company's own assumptions about the assumptions that market participants might use.

NOTES TO FINANCIAL STATEMENTS

The following table summarizes the Company's assets and liabilities that are measured at fair value at December 31, 2012:

1	2	3	4	5
Description	Level 1	Level 2	Level 3	Total
Assets at fair value				
Bonds				
Issuer Obligations	$ -	$2,749,862	$ -	$2,749,862
Residential Mortgage-Backed Securities	-	1,437,862	-	1,437,862
Total Bonds	$ -	$4,187,724	$ -	$4,187,724
Preferred Stocks				
Industrial and Miscellaneous (Unaffiliated)	$ -	$2,521,000	$ -	$2,521,000
Total Preferred Stocks	$ -	$2,521,000	$ -	$2,521,000
Common Stocks				
Industrial and Miscellaneous	$51,346,887	$ -	$258	$51,347,145
Total Common Stocks	$51,346,887	$ -	$258	$51,347,145
Total assets at fair value	$51,346,887	$6,708,724	$258	$58,055,869
Liabilities at fair value	$ -	$ -	$ -	$ -
Total liabilities at fair value	$ -	$ -	$ -	$ -

The Company did not have significant transfers between Levels 1 and 2 during the period ended December 31, 2012.

2. Rollforward of Level 3 Items

The following tables set forth the fair values of assets basis classified as Level 3 within the fair value hierarchy:

1	2	3	4	5	6	7	8	9	10	11
	Balance at 12/31/2011	Transfers into Level 3	Transfers out of Level 3	Total gains and (losses) included in Net Income	Total gains and (losses) included in Surplus	Purchases	Issuances	Sales	Settlements	Balance at 12/31/2012
Bonds	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Preferred Stock	-	-	-	-	-	-	-	-	-	-
Common Stock	229	-	-	-	29	-	-	-	-	258
Total	$229	$ -	$ -	$ -	$29	$ -	$ -	$ -	$ -	$258

3. Policy on Transfers Into and Out of Level 3

The Company holds NAIC designated 3-6 securities at the lower of cost or market as defined by SSAP No. 26. Market fluctuations cause securities to change from being held at cost to fair value or vice versa. These changes result in a transfer in or out of Level 3. In addition, the Company also transfers securities in or out of level 3 as a result of re-evaluation of the observability of pricing inputs.

4. Inputs and Techniques Used for Fair Value

Fixed Maturities

At each valuation date, the Company uses various valuation techniques to estimate the fair value of its fixed maturities portfolio. The primary method for valuing the Company's securities is through independent third-party valuation service providers. For positions where valuations are not available from independent third-party valuation service providers, the Company utilizes broker quotes and internal pricing methods to determine fair values. The Company obtains a single non-binding price quote from a broker familiar with the security who, similar to the Company's valuation service providers, may consider transactions or activity in similar securities, as applicable, among other information. The brokers providing price quotes are generally from the brokerage divisions of leading financial institutions with market making, underwriting and distribution expertise regarding the security subject to valuation. The evaluation and prioritization of these valuation sources is systematic and predetermined resulting in a single quote or price for each financial instrument. The following describes the techniques generally used to determine the fair value of the Company's fixed maturities by asset class:

U.S. government and agency

U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal Home Loan Bank, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. As the fair values of the Company's U.S. Treasury securities are based on unadjusted market prices, they are classified within Level 1. The fair value of U.S. government agency securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, reported trades, bids, offers and credit spreads. Accordingly, the fair value of U.S. government agency securities is classified within Level 2.

NOTES TO FINANCIAL STATEMENTS

Mortgage-Backed Securities

The Company's portfolio of residential mortgage-backed securities ("MBS") and commercial MBS are originated by both agencies and non-agencies, the majority of which are pass-through securities issued by U.S. government agencies. The fair value of MBS is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, contractual cash flows, prepayment speeds, collateral performance and credit spreads. Accordingly, the fair value of MBS is primarily classified within Level 2.

Asset-Backed Securities

Asset-backed securities ("ABS") include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, credit card receivables, and collateralized loan obligation securities originated by a variety of financial institutions. The fair value of ABS is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, contractual cash flows, prepayment speeds, collateral performance and credit spreads. Accordingly, the fair value of ABS is primarily classified within Level 2.

Municipals

The Company's municipal portfolio comprises bonds issued by U.S. domiciled state and municipal entities. The fair value of municipal securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, broker quotes, issuer ratings, reported trades and credit spreads. Accordingly, the fair value of municipal securities is primarily classified within Level 2.

Corporate debt and other

Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair value of corporate and other securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, new issuances, issuer ratings, reported trades of identical or comparable securities, bids, offers and credit spreads. Accordingly, the fair value of corporate and other securities is primarily classified within Level 2. In the event third-party vendor valuation is not available, prices are determined using non-binding price quotes from a broker familiar with the security. In this instance, the valuation inputs are generally unobservable and the fair value is classified within Level 3.

Foreign government securities

Foreign government securities comprise bonds issued by foreign governments and their agencies along with supranational organizations. The fair value of foreign government securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, broker quotes, issuer ratings, reported trades of identical or comparable securities and credit spreads. Accordingly, the fair value of foreign government securities is primarily classified within Level 2.

Equity Securities

Equity securities include common and preferred stocks. Common stocks with fair values based on quoted market prices in active markets are classified in Level 1. Common stocks with fair values determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active are classified in Level 2. The fair value of preferred stock is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active. Accordingly, the fair value of preferred stock is primarily classified within Level 2.

Other Investments

Other investments include primarily international loans, foreign cash deposits and equity investments in privately held businesses. International loans and cash deposits are primarily valued using quoted prices for similar instruments in active markets; these assets are categorized as Level 2 of the fair value hierarchy. Equity investments in privately held businesses are valued using internal management estimates; they are categorized as Level 3 of the hierarchy. Limited partnership investments, which represent the remainder of the other investment balance on the consolidated balance sheet, are not subject to these disclosures and therefore are excluded from the above table.

5. Derivative Fair Values

Not applicable

B. Other Fair Value Disclosures

Not applicable

NOTES TO FINANCIAL STATEMENTS

C. Aggregate Fair Value of All Financial Instruments

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Cash, Cash Equivalents, and Short Term	$64,340,153	$64,340,153	$64,340,153	$ -	$ -	$ -
Bonds	849,287,088	801,911,199	33,709,214	805,824,699	9,753,175	-
Preferred Stock	5,858,600	5,305,000	-	5,858,600	-	-
Common Stock	51,347,145	51,347,145	51,346,887	-	258	-
Securities Lending	-	-	-	-	-	-
Mortgage Loans	32,045,146	28,638,517	-	-	32,045,146	-
Surplus Notes	-	-	-	-	-	-
Total	$1,002,878,132	$951,542,014	$149,396,254	$811,683,299	$41,798,579	$ -

D. Not Practicable to Estimate Fair Value

Not applicable

Note 21 - Other Items

A. Extraordinary Items

The Company has no extraordinary items to report.

B. Troubled Debt Restructuring: Debtors

Not applicable

C. Other Disclosures

1) Assets in the amount of $ 8,500,663 and $40,387,797 as of December 31, 2012 and 2011, respectively, were on deposit with government authorities or trustees as required by law.

2) Interrogatory 6.1

The Company cedes 100% of its business to Peerless Insurance Company, the lead company in the Peerless Pool. Peerless Insurance Company purchases external catastrophe reinsurance coverage.

Interrogatory 6.2

The Company cedes 100% of its business to Peerless Insurance Company, the lead company in the Peerless Pool. Peerless Insurance Company purchases external catastrophe reinsurance coverage.

Interrogatory 6.3

The Company cedes 100% of its business to Peerless Insurance Company, the lead company in the Peerless Pool. Peerless Insurance Company purchases external catastrophe reinsurance coverage.

D. The Company routinely assesses the collectability of its premium receivable balances. The Company does not believe that amounts in excess of non-admitted amounts are material.

E. Business Interruption Insurance Recoveries

The Company does not purchase business interruption coverage.

F. State Transferable and Non-transferable Tax Credit

(1) Carrying value of transferable and non-transferable state tax credits gross of any related state tax liabilities and total unused transferable and non-transferable state tax credits by state and in total

Description of State Transferable and Non-transferable Tax Credits	State	Carrying Value	Unused Amount
Film Credit	CT	39,600	39,600
Total		39,600	39,600

(2) Method of estimating utilization of remaining transferable and non-transferable state tax credits

The Company estimated the utilization of the remaining transferable and non-transferable State Tax credits by projecting future premium taking into account policy growth and rate changes, projecting future tax liability based on projected premium, tax rates and tax credits, and comparing projected future tax liability to the availability of remaining transferable and non-transferable state tax credits.

NOTES TO FINANCIAL STATEMENTS

(3) Impairment amount recognized by the reporting period, if any.

The Company has not recognized any impairment losses associate with its transferable and non-transferable state tax credits during the reporting period.

(4) State Tax Credits Admitted and Nonadmitted

	Total Admitted	Total Nonadmitted
Transferable	-	-
Non-transferable	39,600	-

G. Subprime-Mortgage-Related Risk Exposure

1. The Company has not purchased securities characterized by the market as subprime. The Company looks at such factors as average FICO scores, loan to value ratios, and levels of documentation when evaluating securities. The Company's only exposure to subprime was inherited through acquisition of collateral assets at the termination of a securities lending agreement in 2008.

2. The Company does not have any direct exposure through investments in subprime mortgage loans.

3. The Company has direct exposure through their investment in residential mortgage-backed securities.

Actual Cost	Book Adjusted Carrying Value	Fair Value	Other-Than-Temporary Impairments Recognized
$444,158	$350,844	$383,035	$393,801

4. The Company does not have any underwriting exposure to sub-prime mortgage risk.

Note 22 - Events Subsequent

A. The Company evaluated subsequent events through February 20, 2013, the date the financial statements were available to be issued.

There were no events subsequent to December 31, 2012 that would require disclosure.

Note 23 - Reinsurance

A. Unsecured Reinsurance Recoverable

Excluding amounts arising pursuant to the Intercompany Reinsurance Agreement, as described in Note 26, there are no unsecured reinsurance recoverables with an individual reinsurer which exceed 3% of policyholder's surplus.

B. Reinsurance Recoverable in Dispute

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

C. Reinsurance Assumed & Ceded

1. The following table sets forth the maximum return premium and commission equity due the reinsurers or the Company if all of the Company's assumed and ceded reinsurance were canceled as of December 31, 2012.

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
a. Affiliates	$ 293,734,588	$ 44,060,188	$ 107,063,774	$ 16,059,566	$ 186,670,814	$ 28,000,622
b. All Other	-	-	-	-	-	-
c. TOTAL	$ 293,734,588	$ 44,060,188	$ 107,063,774	$ 16,059,566	$ 186,670,814	$ 28,000,622
d. Direct Unearned Premium Reserve		$ 107,063,774				

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, 2012 are as follows:

	Direct	Assumed	Ceded	Net
a. Contingent Commission	$ -	$17,921,003	$ -	$17,921,003
b. Sliding Scale Adjustments	-	-	-	-
c. Other Profit Commission Arrangements	-	-	-	-
d. TOTAL	$ -	$17,921,003	$ -	$17,921,003

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

NOTES TO FINANCIAL STATEMENTS

D. Uncollectible Reinsurance

The Company did not write off any uncollectible balances in the current year.

E. Commutation of Ceded Reinsurance

The Company did not commute any reinsurance treaties in the current year.

F. Retroactive Reinsurance

The Company's retroactive reinsurance is a result of the Intercompany Reinsurance Agreement as described in Note 26.

	Reported Company	
	As:	
	Assumed	Ceded
a. Reserves Transferred:		
1. Initial Reserves	$26,589,730	$ -
2. Adjustments – Prior Year (s)	(21,622,247)	-
3. Adjustments – Current Year	(335,823)	-
4. Current Total	$4,631,660	$ -
b. Consideration Paid or Received:		
1. Initial Consideration	$21,880,453	$ -
2. Adjustments – Prior Year (s)	834,004	-
3. Adjustments – Current Year	-	-
4. Current Total	$22,714,458	$ -
c. Paid Losses Reimbursed or Recovered:		
1. Prior Year (s)	$27,315,570	$ -
2. Current Year	526,474	-
3. Current Total	$27,842,043	$ -
d. Special Surplus from the Retroactive Reinsurance:		
1. Initial Surplus Gain or Loss	$(5,529,040)	$ -
2. Adjustments – Prior Year (s)	(4,859,318)	-
3. Adjustments – Current Year	(190,651)	-
4. Current Year Restricted Surplus	982,646	-
5. Cumulative Total Transferred to Unassigned Funds	$(11,561,655)	$ -
e. All cedents and reinsurers involved in all transactions included in summary totals above:		
Company	Assumed Amount	Ceded Amount
Peerless Insurance Company	$4,631,660	$ -
Total	$4,631,660	$ -

f. There are no Paid Loss/LAE amounts recoverable or amounts recoverable from unauthorized reinsurers.

G. Reinsurance Accounted for as a Deposit

The Company has not entered into any reinsurance agreements that have been accounted for as deposits as of December 31, 2012.

H. Disclosures for the Transfer of Property and Casualty Run-off Agreements

The Company has not entered into any agreements which have been approved by their domiciliary regulator and have qualified pursuant to SSAP No. 62R, *Property and Casualty Reinsurance* to receive P&C Run-off Accounting Treatment.

I. Certified Reinsurers Downgraded or Status Subject to Revocation

1. Reporting Entity Ceding to Certified Reinsurer Downgraded or Status Subject to Revocation

The Company has not entered into any reinsurance contracts with Certified Reinsurers.

2. Reporting Entity's Certified Reinsurer Rating Downgraded or Status Subject to Revocation

The Company is not a Certified Reinsurer.

Note 24 - Retrospectively Rated Contracts and Contracts Subject to Redetermination

A. The Company estimates accrued retrospective premium adjustments through the review of each individual retrospectively rated risk, comparing case-base loss development with that anticipated in the policy contract to arrive at the best estimate of return or additional retrospective premium.

NOTES TO FINANCIAL STATEMENTS

B. Accrued retrospective premiums are recorded as a component of written premiums.

C. For detail of net premium written subject to retrospective rating features refer to Schedule P, Part 7A.

D. Medical Loss Ratio Rebates

The Company does not recognize a liability for medical loss ratio rebates pursuant to the Public Health Service Act, as the Company does not write direct comprehensive major medical health business.

E. Ten Percent of the amount of accrued retrospective premiums not offset by retrospective return premiums, other liabilities to the same party (other than loss and loss adjustment expense reserves), or collateral as permitted by SSAP No. 66, *Retrospectively Rated Contracts*, has been nonadmitted.

a.	Total accrued retro premium	$ 4,241
b.	Unsecured amount	-
c.	Less: Nonadmitted amount (10%)	424
d.	Less: Nonadmitted for any person for whom agents' balances or uncollected premiums are nonadmitted	-
e.	Admitted amount (a) - (c) - (d)	$ 3,817

Note 25 - Changes in Incurred Losses and Loss Adjustment Expenses

Incurred loss and loss adjustment expense attributable to insured events on prior years has decreased through the fourth quarter of 2012. This decrease was primarily the result of an updated reserve analysis and improving loss trends in the Nonproportional Assumed Liability, Commercial Multiple Peril, Other Liability Occurrence, Fidelity/Surety, Homeowners and Farmowners lines. This increase was partially offset by deteriorating loss trends in the Workers' Compensation, Commercial Auto and Truck Liability lines. Prior estimates are revised as additional information becomes known regarding individual claims.

Note 26 - Intercompany Pooling Arrangements

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

		NAIC Company Number	Pooling Percentage	Line of Business
Lead Company:	Peerless Insurance Company ("PIC")	24198	25.20%	All Lines
Affiliated Pool Companies:	The Ohio Casualty Insurance Company ("OCIC")	24074	20.40%	All Lines
	Safeco Insurance Company of America ("SICOA")	24740	15.20%	All Lines
	General Insurance Company of America ("GICA")	24732	9.20%	All Lines
	American States Insurance Company ("ASIC")	19704	7.60%	All Lines
	American Economy Insurance Company ("AEIC")	19690	5.60%	All Lines
	Indiana Insurance Company ("IIC")	22659	4.80%	All Lines
	Golden Eagle Insurance Corporation ("GEIC")	10836	3.00%	All Lines
	Peerless Indemnity Insurance Company ("PIIC")	18333	3.00%	All Lines
	Safeco Insurance Company of Illinois ("SICIL")	39012	2.00%	All Lines
	The Netherlands Insurance Company ("NIC")	24171	1.80%	All Lines
	American States Preferred Insurance Company ("ASPCO")	37214	0.80%	All Lines
	First National Insurance Company of America ("FNICA")	24724	0.80%	All Lines
	American Fire and Casualty Company ("AFCIC")	24066	0.60%	All Lines
	America First Insurance Company ("AFIC")	12696	0.00%	All Lines
	America First Lloyd's Insurance Company ("AFLIC")	11526	0.00%	All Lines
	American States Insurance Company of Texas ("ASICT")	19712	0.00%	All Lines
	American States Lloyds Insurance Company ("ASLCO")	31933	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
	Hawkeye-Security Insurance Company ("HSIC")	36919	0.00%	All Lines
	Mid-American Fire & Casualty Company ("MAFCC")	23507	0.00%	All Lines
	The Midwestern Indemnity Company ("MWIC")	23515	0.00%	All Lines
	Montgomery Mutual Insurance Company ("MMIC")	14613	0.00%	All Lines
	National Insurance Association ("NIA")	27944	0.00%	All Lines
	Ohio Security Insurance Company ("OSIC")	24082	0.00%	All Lines
	Safeco Insurance Company of Indiana ("SICIN")	11215	0.00%	All Lines
	Safeco Insurance Company of Oregon ("SICOR")	11071	0.00%	All Lines

NOTES TO FINANCIAL STATEMENTS

	Safeco Lloyds Insurance Company ("SLICO")	11070	0.00%	All Lines
	Safeco National Insurance Company ("SNIC")	24759	0.00%	All Lines
	Safeco Surplus Lines Insurance Company ("SSLIC")	11100	0.00%	All Lines
	West American Insurance Company ("WAIC")	44393	0.00%	All Lines
			100.0%	
100% Quota Share Affiliated Companies:	Liberty Northwest Insurance Corporation ("LNW")	41939	0.00%	All Lines
	North Pacific Insurance Company ("NPIC")	23892	0.00%	All Lines
	Oregon Automobile Insurance Company ("OAIC")	23922	0.00%	All Lines
	Liberty Mutual Mid-Atlantic Insurance Company ("LMMAIC")	14486	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. Each 100% Quota Share Affiliated Company cedes its net underwriting activity to the Lead Company.

(b) After recording the assumed affiliate transactions noted above, the Lead Company records 100% of its external assumed and ceded reinsurance activity.

(c) 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.

(d) 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.

(e) 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.

(f) The write-off of uncollectible reinsurance is pooled and the Provision for Reinsurance is recognized by the entity placing the outbound external reinsurance

(g) Amounts due (to)/from affiliated entities participating in the PIC Amended and Restated Reinsurance Pooling Agreement as of December 31, 2012:

Affiliate:	Amount:
Peerless Insurance Company	$ (5,344,658)

Pursuant to the approval of the appropriate state insurance departments, effective January 1, 2013, the Peerless Amended and Restated Reinsurance Pooling Agreement (the PIC Pool) was terminated and concurrently the participants in the PIC Pool became participants in the Liberty Mutual Second Amended and Restated Inter-Company Reinsurance Agreement (The Liberty Pool).

Effective January 1, 2013, Liberty County Mutual Insurance Company cancelled its 100% Quota Share Reinsurance Agreement with Liberty Mutual Insurance Company, the lead company in the Liberty Pool and became a participant in the Liberty Pool.

Effective January 1, 2013, Liberty Northwest Insurance Corporation, North Pacific Insurance Company, Oregon Automobile Insurance Company and Liberty Mutual Mid-Atlantic Insurance Company cancelled its 100% Quota Share Reinsurance Agreements with Peerless Insurance Company, the Lead Company in the PIC Pool, and became participants in the Liberty Pool.

Effective January 1, 2013, the Liberty Pool structure is as follows:

		NAIC Company Number	Pooling Percentage	Line of Business
Lead Company:	Liberty Mutual Insurance Company ("LMIC")	23043	50.0%	All Lines
Affiliated Pool Companies:	Peerless Insurance Company ("PIC")	24198	20.0%	All Lines
	Employers Insurance Company of Wausau ("EICOW")	21458	8.00%	All Lines
	Liberty Mutual Fire Insurance Company ("LMFIC")	23035	8.00%	All Lines
	The Ohio Casualty Insurance Company ("OCIC")	24074	8.00%	All Lines
	Safeco Insurance Company of America ("SICOA")	24740	6.0%	All Lines
	American Economy Insurance Company ("AEIC")	19690	0.0%	All Lines
	America First Insurance Company ("AFIC")	12696	0.0%	All Lines
	America Fire and Casualty Company ("AFCIC")	24066	0.0%	All Lines
	America First Lloyd's Insurance Company ("AFLIC")	11526	0.0%	All Lines
	American States Insurance Company ("ASIC")	19704	0.0%	All Lines

NOTES TO FINANCIAL STATEMENTS

	American States Insurance Company of Texas (“ASICT”)	19712	0.0%	All Lines
	American States Lloyd’s Insurance Company (“ASLCO”)	31933	0.0%	All Lines
	American States Preferred Insurance Company (“ASPCO”)	37214	0.0%	All Lines
	Colorado Casualty Insurance Company (“CCIC”)	41785	0.0%	All Lines
	Consolidated Insurance Company (“CIC”)	22640	0.0%	All Lines
	Excelsior Insurance Company (“EIC”)	11045	0.0%	All Lines
	First National Insurance Company of America (“FNICA”)	24724	0.0%	All Lines
	The First Liberty Insurance Corporation (“FST”)	33588	0.0%	All Lines
	General Insurance Company of America (“GICA”)	24732	0.0%	All Lines
	Golden Eagle Insurance Corporation (“GEIC”)	10836	0.0%	All Lines
	Hawkeye-Security Insurance Company (“HSIC”)	36919	0.0%	All Lines
	Insurance Company of Illinois (“ICIL”)	26700	0.0%	All Lines
	Indiana Insurance Company (“IIC”)	22659	0.0%	All Lines
	Liberty Insurance Corporation (“LIC”)	42404	0.0%	All Lines
	Liberty Insurance Underwriters, Inc. (“LIU”)	19917	0.0%	All Lines
	Liberty County Mutual Insurance Company (“LCMIC”)	19544	0.0%	All Lines
	LM General Insurance Company (“LMGIC”)	36447	0.0%	All Lines
	Liberty Lloyd’s of Texas Insurance Company (“LLOT”)	11041	0.0%	All Lines
	LM Insurance Corporation (“LMC”)	33600	0.0%	All Lines
	Liberty Mutual Mid-Atlantic Insurance Company (“LMMAIC”)	14486	0.0%	All Lines
	Liberty Mutual Personal Insurance Company (“LMPICO”)	12484	0.0%	All Lines
	Liberty Northwest Insurance Corporation (“LNW”)	41939	0.0%	All Lines
	Liberty Personal Insurance Company (LPIC”)	11746	0.0%	All Lines
	Liberty Surplus Insurance Corporation (“LSI”)	10725	0.0%	All Lines
	Mid-American Fire & Casualty Company (“MAFCC”)	23507	0.0%	All Lines
	Montgomery Mutual Insurance Company (“MMIC”)	14613	0.0%	All Lines
	The Midwestern Indemnity Company (“MWIC”)	23515	0.0%	All Lines
	National Insurance Association (“NIA”)	27944	0.0%	All Lines
	The Netherlands Insurance Company (“NIC”)	24171	0.0%	All Lines
	North Pacific Insurance Company (“NPIC”)	23892	0.0%	All Lines
	Ohio Security Insurance Company (“OSIC”)	24082	0.0%	All Lines
	Oregon Automobile Insurance Company (“OAIC”)	23922	0.0%	All Lines
	Peerless Indemnity Insurance Company (“PIIC”)	18333	0.0%	All Lines
	Safeco Insurance Company of Illinois (“SICIL”)	39012	0.0%	All Lines
	Safeco Insurance Company of Indiana (“SICIN”)	11215	0.0%	All Lines
	Safeco Insurance Company of Oregon (“SICOR”)	11071	0.0%	All Lines
	Safeco Lloyds Insurance Company (“SLICO”)	11070	0.0%	All Lines
	Safeco National Insurance Company (“SNIC”)	24759	0.0%	All Lines
	Safeco Surplus Lines Insurance Company (“SSLIC”)	11100	0.0%	All Lines
	Wausau Business Insurance Company (“WBIC”)	26069	0.0%	All Lines
	Wausau General Insurance Company (“WGIC”)	26425	0.0%	All Lines
	Wausau Underwriters Insurance Company (“WUIC”)	26042	0.0%	All Lines
	West American Insurance Company (“WAIC”)	44393	0.0%	All Lines
			100.00%	
100% Quota Share Affiliated Companies:	Bridgefield Employers Insurance Company (“BEIC”)	10701	0.0%	All Lines
	Bridgefield Casualty Insurance Company (“BCIC”)	10335	0.0%	All Lines
	LM Property and Casualty Insurance Company (“LMPAC”)	32352	0.0%	All Lines

Note 27 - Structured Settlements

A. As a result of purchased annuities with the claimant as payee, The Company no longer carries reserves of $6,421,984 after applying Intercompany 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 $6,421,984 as of December 31, 2012.

B. A summary of purchased structured settlement annuities exceeding 1% of policyholders’ surplus and whereby the company has not obtained a release of liability from the claimant is as follows:

Life Insurance Company and Location	Licensed in Company’s State of Domicile (Yes/No)	Statement Value of Annuities
Symetra Life Insurance Company Bellevue, Washington	Yes	2,670,737

NOTES TO FINANCIAL STATEMENTS

Note 28 - Health Care Receivables

Not applicable

Note 29 - Participating Policies

Not applicable

Note 30 - Premium Deficiency Reserves

1. Liability carried for premium deficiency reserves	$ -
2. Date of the most recent evaluation of this liability	12/31/2012
3. Was anticipated investment income utilized in the calculation?	Yes

Note 31 - High Dollar Deductible Policies

Not applicable

Note 32 - Discounting of Liabilities for Unpaid Losses and Unpaid Loss Adjustment Expenses

For workers Compensation the Company discounts its reserves for unpaid losses using a tabular discount on the long-term annuity portion of certain workers compensation claims. The tabular discount is based on the Unit Stastical Plan tables as approved by their respective states at an annual discount rate of 4.0%.

A. The amount of tabular discount for case and IBNR reserves is as follows:

Schedule P Lines of Business	Tabular Discount Included in Schedule P, Part 1*	
	1 Case	2 IBNR
1. Homeowners/Farmowners	-	-
2. Private Passenger Auto Liability/Medical	-	-
3. Commercial Auto/Truck Liability/Medical	-	-
4. Workers' Compensation	$ 4,058,192	$ 2,820,099
5. Commercial Multiple Peril	-	-
6. Medical Professional Liability – occurrence	-	-
7. Medical Professional Liability – claims-made	-	-
8. Special Liability	-	-
9. Other Liability - occurrence	-	-
10. Other Liability – claims-made	-	-
11. Special Property	-	-
12. Auto Physical Damage	-	-
13. Fidelity, Surety	-	-
14. Other (including Credit, Accident & Health)	-	-
15. International	-	-
16. Reinsurance Nonproportional Assumed Property	-	-
17. Reinsurance Nonproportional Assumed Liability	-	-
18. Reinsurance Nonproportional Assumed Financial Lines	-	-
19. Products Liability – occurrence	-	-
20. Products Liability – claims-made	-	-
21. Financial Guaranty/Mortgage Guaranty	-	-
22. Warranty	-	-
23. Total	$ 4,058,192	$ 2,820,099

* Must exclude medical loss reserves and all loss adjustment expense reserves.

B. Nontabular Discount:

Not applicable

Note 33 - Asbestos/Environmental Reserves

The Company has exposure to asbestos and environmental claims that 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 reserves for anticipated losses and bulk reserves for claim adjustment expenses and incurred but not reported claims reserves ("IBNR"). The Company maintained casualty excess of loss reinsurance during the relevant periods. The reserves are reported net of cessions to reinsurers and include any reserves reported by ceding reinsurers on assumed reinsurance contracts.

NOTES TO FINANCIAL STATEMENTS

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

The uncertainties associated with establishing reserves for asbestos and environmental claims and claim 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. The uncertainties cannot be reasonably estimated, but could have a material impact on the Company's future operating results and financial condition.

In the third quarter of 2011, the Company completed asbestos ground-up and aggregate environmental reserve studies. These studies were completed by a multi-disciplinary team of internal claims, legal, reinsurance and actuarial personnel, and included all major business segments of the Company's direct, assumed, and ceded asbestos and environmental unpaid claim liabilities. As part of the internal review, policyholders with the largest direct asbestos unpaid claim liabilities were individually evaluated using the Company's proprietary stochastic ground-up model, which is consistent with published actuarial methods of asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, injury type, jurisdiction and legal defenses. Reinsurance recoveries for these policyholders were then separately evaluated by the Company's reinsurance and actuarial personnel. Asbestos and environmental unpaid claim liabilities for all other policyholders were evaluated using aggregate methods that utilized information and experience specific to these policyholders. The studies resulted in an increase to reserves.

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 on historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations including managerial judgment. In that regard, the estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability, and the risks inherent in major litigation and other uncertainties, the Company believes that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in an aggregate liability that differs from current reserves by an amount that could be material to the Company's future operating results and financial condition.

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.

The following tables summarize the activity for the Company's asbestos and environmental claims and claim adjustment expenses, a component of the Company's unpaid claims and claim adjustment expenses, for the years ended December 31, 2012, 2011, 2010, 2009, and 2008:

Asbestos:

	2008	2009	2010	2011	2012
Direct Basis					
Beginning Reserves	9,059,318	9,373,412	8,769,607	7,891,529	5,749,892
Incurred losses and LAE	1,381,258	119,710	(726)	(1,589,005)	(258,308)
Calendar year payments	1,067,164	723,514	877,352	552,632	515,914
Ending Reserves	9,373,412	8,769,607	7,891,529	5,749,892	4,975,670
Assumed Reinsurance Basis					
Beginning Reserves	7,448,312	6,375,702	8,882,056	7,749,792	8,594,324
Incurred losses and LAE	(253,085)	3,151,647	(3,123)	1,374,022	250,027
Calendar year payments	819,526	645,293	1,129,141	529,491	661,969
Ending Reserves	6,375,702	8,882,056	7,749,792	8,594,324	8,182,381
Net of Ceded Reinsurance Basis					
Beginning Reserves	13,375,982	12,831,685	15,109,158	13,289,884	11,615,583
Incurred losses and LAE	674,364	3,558,408	7,110	(99,688)	(358,508)
Calendar year payments	1,218,661	1,280,936	1,826,384	1,574,613	341,947
Ending Reserves	12,831,685	15,109,158	13,289,884	11,615,583	10,915,127

NOTES TO FINANCIAL STATEMENTS

Ending Reserves for Bulk + IBNR included above (Loss & LAE)	
Direct Basis	1,928,851
Assumed Reinsurance Basis	5,026,102
Net of Ceded Reinsurance Basis	5,966,559
Ending Reserves for LAE included above (Case, Bulk & IBNR)	
Direct Basis	1,424,051
Assumed Reinsurance Basis	174,812
Net of Ceded Reinsurance Basis	1,069,492

Environmental:

	2008	2009	2010	2011	2012
Direct Basis					
Beginning Reserves	10,412,279	8,895,424	7,577,425	6,782,633	7,171,199
Incurred losses and LAE	229,257	(386,129)	(40,526)	1,363,238	(51,177)
Calendar year payments	1,746,113	931,870	754,266	974,671	794,715
Ending Reserves	8,895,424	7,577,425	6,782,633	7,171,199	6,325,308
Assumed Reinsurance Basis					
Beginning Reserves	1,999,169	1,922,341	1,383,747	1,266,239	972,403
Incurred losses and LAE	112	(489,929)	25,470	(136,036)	165,827
Calendar year payments	76,940	48,665	142,979	157,799	175,740
Ending Reserves	1,922,341	1,383,747	1,266,239	972,403	962,491
Net of Ceded Reinsurance Basis					
Beginning Reserves	11,454,884	9,769,437	7,815,346	6,959,226	7,499,467
Incurred losses and LAE	(201,701)	(1,032,370)	4,355	(840)	1,674,400
Calendar year payments	1,483,746	921,721	860,475	(541,081)	2,595,541
Ending Reserves	9,769,437	7,815,346	6,959,226	7,499,467	6,578,325

Ending Reserves for Bulk + IBNR included above (Loss & LAE)	
Direct Basis	2,611,641
Assumed Reinsurance Basis	597,674
Net of Ceded Reinsurance Basis	2,706,905
Ending Reserves for LAE included above (Case, Bulk & IBNR)	
Direct Basis	1,168,080
Assumed Reinsurance Basis	48,016
Net of Ceded Reinsurance Basis	1,053,009

Note 34 - Subscriber Savings Accounts

The Company is not a reciprocal insurance company.

Note 35 - Multiple Peril Crop Insurance

Not applicable

Note 36 - Financial Guaranty Insurance

Not applicable

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? Indiana

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. 12/31/2009

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. 12/31/2009

3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 06/29/2011

3.4 By what department or departments?
Indiana Department of Insurance

3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments? Yes [ ] No [ ] N/A [X]

3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [ ] No [ ] N/A [X]

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]

GENERAL INTERROGATORIES

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. 0.00 %

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.

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 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 FDIC	6 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

10.1 Has the insurer been granted any exemptions to the prohibited non-audit services provided by the certified independent public accountant requirements as allowed in Section 7H of the Annual Financial Reporting Model Regulation (Model Audit Rule), or substantially similar state law or regulation? Yes [ ] No [X]

10.2 If response to 10.1 is yes, provide information related to this exemption:

10.3 Has the insurer been granted any exemptions related to the other requirements of the Annual Financial Reporting Model Regulation as allowed for in Section 17A of the Model Regulation, or substantially similar state law or regulation? Yes [ ] No [X]

10.4 If response to 10.3 is yes, provide information related to this exemption:

GENERAL INTERROGATORIES

10.5 Has the reporting entity established an Audit Committee in compliance with the domiciliary state insurance laws? Yes [X] No [ ] N/A [ ]

10.6 If the response to 10.5 is no or n/a, please explain:

11. 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?
Kristen M. Bessette, FCAS, MAAA
175 Berkeley Street Boston, MA 02116
Sr. Vice President & Chief Actuary

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

12.11 Name of real estate holding company	
12.12 Number of parcels involved	0
12.13 Total book/adjusted carrying value	$ 0

12.2 If yes, provide explanation:

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

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

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

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

13.4 If answer to (13.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [X]

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

a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
c. Compliance with applicable governmental laws, rules, and regulations;
d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
e. Accountability for adherence to the code. Yes [X] No [ ]

14.11 If the response to 14.1 is no, please explain:

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

14.21 If the response to 14.2 is yes, provide information related to amendment(s).
During Q1 and Q3, 2012, Liberty Mutual Insurance Group published certain non-material changes to its Code of Business Ethics and Conduct designed to clarify existing Code provisions.

GENERAL INTERROGATORIES

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

14.31 If the response to 14.3 is yes, provide the nature of any waiver(s).

15.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance where the issuing or confirming bank is not on the SVO Bank List? Yes [ ] No [X]

15.2 If the response to 15.1 is yes, indicate the American Bankers Association (ABA) Routing Number and the name of the issuing or confirming bank of the Letter of Credit and describe the circumstances in which the Letter of Credit is triggered.

1 American Bankers Association (ABA) Routing Number	2 Issuing or Confirming Bank Name	3 Circumstances That Can Trigger the Letter of Credit	4 Amount
0	0	0	0
0	0	0	0
0	0	0	0

BOARD OF DIRECTORS

16. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate thereof? Yes [X] No [ ]

17. 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 [ ]

18. 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

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

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

20.11	To directors or other officers	$ 0
20.12	To stockholders not officers	$ 0
20.13	Trustees, supreme or grand (Fraternal only)	$ 0

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

20.21	To directors or other officers	$ 0
20.22	To stockholders not officers	$ 0
20.23	Trustees, supreme or grand (Fraternal only)	$ 0

21.1 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]

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

21.21	Rented from others	$ 0
21.22	Borrowed from others	$ 0
21.23	Leased from others	$ 0
21.24	Other	$ 0

22.1 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]

GENERAL INTERROGATORIES

22.2 If answer is yes:

22.21	Amount paid as losses or risk adjustment	$ 0
22.22	Amount paid as expenses	$ 0
22.23	Other amounts paid	$ 0

23.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No [ ]

23.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $ 0

INVESTMENT

24.01 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? (other than securities lending programs addressed in 24.03) Yes [X] No [ ]

24.02 If no, give full and complete information, relating thereto:

24.03 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 17 where this information is also provided):
Please reference Note 17B.

24.04 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes [X] No [ ] N/A [ ]

24.05 If answer to 24.04 is yes, report amount of collateral for conforming programs. $ 0

24.06 If answer to 24.04 is no, report amount of collateral for other programs. $ 0

24.07 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? Yes [X] No [ ] N/A [ ]

24.08 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes [X] No [ ] N/A [ ]

24.09 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending? Yes [X] No [ ] N/A [ ]

24.10 For the reporting entity's security lending program, state the amount of the following as of December 31 of the current year:

24.101	Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2	$ 0
24.102	Total book adjusted/carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2	$ 0
24.103	Total payable for securities lending reported on the liability page	$ 0

25.1 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 21.1 and 24.03). Yes [X] No [ ]

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

25.21	Subject to repurchase agreements	$ 0
25.22	Subject to reverse repurchase agreements	$ 0
25.23	Subject to dollar repurchase agreements	$ 0
25.24	Subject to reverse dollar repurchase agreements	$ 0
25.25	Pledged as collateral	$ 0
25.26	Placed under option agreements	$ 0
25.27	Letter stock or securities restricted as to sale	$ 0
25.28	On deposit with state or other regulatory body	$ 8,500,663
25.29	Other	$ 0

GENERAL INTERROGATORIES

25.3 For category (25.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount
		0
		0
		0

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

26.2 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.

27.1 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]

27.2 If yes, state the amount thereof at December 31 of the current year. $ 0

28. Excluding items in Schedule E - Part 3 - Special Deposits, 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 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No [ ]

28.01 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	1 Chase Manhattan Plaza, New York, NY 10005
Bank of New York Mellon	601 Travis Street, Houston, TX 77002

28.02 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)

28.03 Have there been any changes, including name changes, in the custodian(s) identified in 28.01 during the current year? Yes [ ] No [X]

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

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

28.05 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/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
N/A	Liberty Mutual Group Asset Managemen	175 Berkeley Street, Boston, MA 02116
N/A	Liberty Mutual Investment Advisors, LLC	175 Berkeley Street, Boston, MA 02116
N/A	Stancorp Mortgage Investors	1100 SW Sixth Avenue, Portland, OR 97204

29.1 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]

GENERAL INTERROGATORIES

29.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
		0
		0
		0
29.2999 TOTAL		0

29.3 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
		0	
		0	
		0	

30. 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 (+)
30.1 Bonds	859,862,750	869,853,285	9,990,535
30.2 Preferred stocks	5,305,000	5,858,600	553,600
30.3 Totals	865,167,750	875,711,885	10,544,135

30.4 Describe the sources or methods utilized in determining the fair values:
The primary source is published unit prices from the NAIC Securities Valuation Office. The secondary source is the pricing vendor, Interactive Data Corporation, followed by backfill from Bloomberg and Markit. Lastly, management determines fair value based on quoted market prices of similar financial instruments or by using industry recognized valuation techniques.

31.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D? Yes [ ] No [X]

31.2 If the answer to 31.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source? Yes [ ] No [ ]

31.3 If the answer to 31.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:

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

32.2 If no, list exceptions:

OTHER

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

GENERAL INTERROGATORIES

33.2 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
0	$ 0
0	$ 0
	$ 0

34.1 Amount of payments for legal expenses, if any? $ 100,751

34.2 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
0	$ 0
	$ 0
	$ 0

35.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? $ 13,374

35.2 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
0	$ 0
	$ 0
	$ 0

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

0

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. $ 0

1.5 Indicate total incurred claims on all Medicare Supplement insurance. $ 0

1.6 Individual policies:

Most current three years:

1.61	Total premium earned	$ 0
1.62	Total incurred claims	$ 0
1.63	Number of covered lives	0

All years prior to most current three years:

1.64	Total premium earned	$ 0
1.65	Total incurred claims	$ 0
1.66	Number of covered lives	0

1.7 Group policies:

Most current three years:

1.71	Total premium earned	$ 0
1.72	Total incurred claims	$ 0
1.73	Number of covered lives	0

All years prior to most current three years:

1.74	Total premium earned	$ 0
1.75	Total incurred claims	$ 0
1.76	Number of covered lives	0

2. Health Test:

		1 Current Year	2 Prior Year
2.1	Premium Numerator	$ (0)	$ (0)
2.2	Premium Denominator	$ 601,239,999	$ 586,389,471
2.3	Premium Ratio (2.1/2.2)	(0.00)	(0.00)
2.4	Reserve Numerator	$ 2,822,947	$ 2,945,794
2.5	Reserve Denominator	$ 935,441,985	$ 936,296,362
2.6	Reserve Ratio (2.4/2.5)	0.00	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	$ 0
3.22	Non-participating policies	$ 226,152,001

4. For Mutual reporting entities and Reciprocal Exchanges 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

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 loss:

See Note 21C2

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

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:
See Note 21C2

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?
See Note 21C2

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 [X]

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 unreinsured catastrophic loss
Refer to Note 21C

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 [X]

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 [X]

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 [X]

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 [X]

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 31 of SSAP No. 62R, 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 [X]

9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.

9.6 The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:
(a) The entity does not utilize reinsurance; or, Yes [ ] No [X]
(b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or Yes [ ] No [X]
(c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement. Yes [X] No [ ]

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

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 15.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
12.11 Unpaid losses $ 18,978,484
12.12 Unpaid underwriting expenses (including loss adjustment expenses) $ 1,799,985

12.2 Of the amount on Line 15.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? $ 4,241

12.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium notes or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? Yes [X] No [ ] N/A [ ]

12.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
12.41 From 0.00 %
12.42 To 9.00 %

12.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium notes or promissory notes taken by a reporting entity or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? Yes [X] No [ ]

12.6 If yes, state the amount thereof at December 31 of current year:
12.61 Letters of Credit $ 41,643,218
12.62 Collateral and other funds $ 7,968,247

13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): $ 17,976,000

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

13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. 1

14.1 Is the company a cedant in a multiple cedant reinsurance contract? Yes [ ] No [X]

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

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

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

14.5 If the answer to 14.4 is no, please explain:
0

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 Direct Losses Incurred	2 Direct Losses Unpaid	3 Direct Written Premium	4 Direct Premium Unearned	5 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

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 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

18.1 Do you act as a custodian for health savings accounts? Yes [ ] No [X]

18.2 If yes, please provide the amount of custodial funds held as of the reporting date. $ 0

18.3 Do you act as an administrator for health savings accounts? Yes [ ] No [X]

18.4 If yes, please provide the balance of the funds adminstered as of the reporting date. $ 0

FIVE – YEAR HISTORICAL DATA

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

	1 2012	2 2011	3 2010	4 2009	5 2008
Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	278,938,259	289,079,207	299,767,266	332,500,572	394,970,745
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	135,717,358	128,936,701	130,081,032	113,156,000	210,796,889
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	382,664,518	393,281,799	404,835,684	414,300,152	474,783,174
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	40,252,322	42,049,786	41,118,773	31,312,118	63,282,456
5. Nonproportional reinsurance lines (Lines 31, 32 & 33)				6	1,494
6. Total (Line 35)	837,572,457	853,347,493	875,802,755	891,268,848	1,143,834,758
Net Premiums Written (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3,19.4)	232,704,605	234,996,927	240,841,871	263,590,913	311,601,546
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	124,268,985	115,852,756	115,787,634	96,481,947	189,051,399
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	214,235,688	202,678,479	192,858,902	175,461,076	183,947,163
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	40,210,729	41,937,895	40,910,648	31,176,766	63,131,763
11. Nonproportional reinsurance lines (Lines 31, 32 & 33)				6	1,494
12. Total (Line 35)	611,420,007	595,466,057	590,399,055	566,710,708	747,733,365
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	3,766,205	(36,235,187)	(8,300,206)	24,641,393	20,621,541
14. Net investment gain (loss) (Line 11)	45,903,119	43,001,081	55,567,565	54,905,121	49,634,935
15. Total other income (Line 15)	2,587,976	1,805,333	(4,569,508)	(1,000,114)	1,257,861
16. Dividends to policyholders (Line 17)	1,441,861	1,177,584	(197,359)	2,510,199	930,371
17. Federal and foreign income taxes incurred (Line 19)	7,121,165	(2,034,622)	(5,539,360)	13,760,528	8,355,046
18. Net income (Line 20)	43,694,274	9,428,265	48,434,570	62,275,673	62,228,920
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 26, Col. 3)	1,219,734,253	1,268,229,649	1,256,663,965	1,546,119,817	1,438,460,340
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 15.1)	17,800,160	22,440,194	20,102,764	22,186,815	69,671,737
20.2 Deferred and not yet due (Line 15.2)	179,616,000	168,865,110	161,676,876	157,537,260	117,162,078
20.3 Accrued retrospective premiums (Line 15.3)	3,817	258,587	513,008	914,463	326,924
21. Total liabilities excluding protected cell business (Page 3, Line 26)	1,033,436,358	1,034,199,616	1,020,377,724	1,037,489,151	1,129,311,330
22. Losses (Page 3, Line 1)	495,123,875	504,804,800	500,110,560	526,416,697	542,818,524
23. Loss adjustment expenses (Page 3, Line 3)	113,232,251	111,621,344	111,617,900	125,330,551	126,537,370
24. Unearned premiums (Page 3, Line 9)	293,734,587	282,190,835	271,776,831	257,663,511	282,825,872
25. Capital paid up (Page 3, Lines 30 & 31)	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
26. Surplus as regards policyholders (Page 3, Line 37)	186,297,895	234,030,033	236,286,241	508,630,666	309,149,010
Cash Flow (Page 5)					
27. Net cash from operations (Line 11)	50,009,394	27,601,230	7,873,197	(27,884,070)	60,737,162
Risk-Based Capital Analysis					
28. Total adjusted capital	186,297,895	234,030,033	236,286,241	508,630,666	309,149,010
29. Authorized control level risk-based capital	53,231,254	52,781,863	52,785,350	53,190,943	64,309,664
Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 12, Col. 3) x 100.0					
30. Bonds (Line 1)	81.8	84.0	86.7	90.1	85.3
31. Stocks (Lines 2.1 & 2.2)	8.2	7.9	7.4	4.7	4.9
32. Mortgage loans on real estate (Lines 3.1 and 3.2)	2.9	2.7	2.7	0.8	
33. Real estate (Lines 4.1, 4.2 & 4.3)					
34. Cash, cash equivalents and short-term investments (Line 5)	6.6	4.3	2.0	4.4	9.8
35. Contract loans (Line 6)					
36. Derivatives (Line 7)				XXX	XXX
37. Other invested assets (Line 8)	0.0	0.0	0.0		
38. Receivables for securities (Line 9)	0.5	0.5	0.1		0.0
39. Securities lending reinvested collateral assets (Line 10)		0.6	1.1	XXX	XXX
40. Aggregate write-ins for invested assets (Line 11)					
41. Cash, cash equivalents and invested assets (Line 12)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
42. Affiliated bonds, (Sch. D, Summary, Line 12, Col. 1)					
43. Affiliated preferred stocks (Sch. D, Summary, Line 18, Col. 1)					
44. Affiliated common stocks (Sch. D, Summary, Line 24, Col. 1)	23,973,640	23,426,337	22,830,898	22,292,911	21,443,102
45. Affiliated short-term investments (subtotals included in Schedule DA Verification, Col. 5, Line 10)					
46. Affiliated mortgage loans on real estate					
47. All other affiliated					
48. Total of above Lines 42 to 47	23,973,640	23,426,337	22,830,898	22,292,911	21,443,102
49. Total investment in parent included in Lines 42 to 47 above					
50. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 48 above divided by Page 3, Col. 1, Line 37 x 100.0)	12.9				

FIVE – YEAR HISTORICAL DATA
(Continued)

		1 2012	2 2011	3 2010	4 2009	5 2008
	Capital and Surplus Accounts (Page 4)					
51.	Net unrealized capital gains (losses) (Line 24)	5,203,917	(2,532,332)	123,335	8,660,867	(31,019,580)
52.	Dividends to stockholders (Line 35)	(72,002,031)		(169,397,479)	(7,200,000)	(107,000,000)
53.	Change in surplus as regards policyholders for the year (Line 38)	(47,732,138)	(2,256,208)	(272,344,425)	199,481,657	(91,185,018)
	Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
54.	Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	169,065,768	182,365,848	217,623,910	169,620,389	223,057,047
55.	Property lines (Lines 1, 2, 9, 12, 21 & 26)	70,772,110	72,512,590	65,274,612	73,967,460	118,786,260
56.	Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	216,121,234	259,629,589	227,177,703	257,642,083	305,288,115
57.	All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	15,699,301	10,564,281	8,093,426	4,247,266	3,221,631
58.	Nonproportional reinsurance lines (Lines 31, 32 & 33)	396,305	441,590	1,199,015	17,313,736	2,957,848
59.	Total (Line 35)	472,054,718	525,513,898	519,368,666	522,790,934	653,310,901
	Net Losses Paid (Page 9, Part 2, Col. 4)					
60.	Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	132,439,998	142,251,591	178,524,293	138,920,821	178,794,687
61.	Property lines (Lines 1, 2, 9, 12, 21 & 26)	65,514,508	65,741,280	59,334,100	66,541,304	107,519,503
62.	Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	121,905,392	139,087,916	102,785,011	86,907,266	122,493,601
63.	All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	15,699,301	10,571,104	8,095,426	4,270,810	3,193,579
64.	Nonproportional reinsurance lines (Lines 31, 32 & 33)	396,305	441,590	1,199,015	17,300,068	2,957,848
65.	Total (Line 35)	335,955,504	358,093,481	349,937,845	313,940,269	414,959,218
	Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
66.	Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
67.	Losses incurred (Line 2)	54.3	61.9	56.0	50.7	55.5
68.	Loss expenses incurred (Line 3)	12.4	12.1	11.8	11.9	11.5
69.	Other underwriting expenses incurred (Line 4)	32.7	32.2	33.6	33.2	30.3
70.	Net underwriting gain (loss) (Line 8)	0.6	(6.2)	(1.4)	4.2	2.7
	Other Percentages					
71.	Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 35 x 100.0	31.7	31.4	33.6	34.6	31.2
72.	Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	66.7	73.9	67.8	62.6	67.0
73.	Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 35 divided by Page 3, Line 37, Col. 1 x 100.0)	328.2	254.4	249.9	111.4	241.9
	One Year Loss Development (000 omitted)					
74.	Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2-Summary, Line 12, Col. 11)	(23,470)	(15,777)	(6,792)	(43,196)	(21,805)
75.	Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 74 above divided by Page 4, Line 21, Col. 1 x 100.0)	(10.0)	(6.7)	(1.3)	(14.0)	(5.4)
	Two Year Loss Development (000 omitted)					
76.	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)	(30,109)	(14,158)	(34,526)	(62,244)	(31,290)
77.	Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 76 above divided by Page 4, Line 21, Col. 2 x 100.0)	(12.7)	(2.8)	(11.2)	(15.5)	(5.9)

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes [ ] No [X]

If no, please explain:
Not applicable

SCHEDULE P – ANALYSIS OF LOSSES AND LOSS EXPENSES

SCHEDULE P – PART 1 – SUMMARY

($000 omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								12
	1	2	3	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	Number of Claims Reported Direct and Assumed
	Direct and Assumed	Ceded	Net (Cols. 1–2)	4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
1. Prior	X X X	X X X	X X X	7,479	4,806	1,775	398	424	(622)	334	5,096	X X X
2. 2003	557,381	46,552	510,829	273,656	23,985	19,396	1,406	40,913	1,944	17,095	306,630	X X X
3. 2004	599,833	33,095	566,738	281,010	11,513	17,966	636	40,128	858	21,422	326,097	X X X
4. 2005	624,891	25,310	599,581	288,995	11,920	19,022	696	42,186	661	20,366	336,926	X X X
5. 2006	624,062	27,871	596,191	293,640	7,116	19,160	794	43,080	953	17,843	347,017	X X X
6. 2007	636,961	31,108	605,853	295,847	6,591	19,703	674	42,711	600	19,857	350,396	X X X
7. 2008	635,709	23,634	612,075	330,272	10,263	19,568	783	47,729	490	17,309	386,033	X X X
8. 2009	596,434	37,301	559,133	271,660	16,850	14,741	847	42,398	361	16,274	310,741	X X X
9. 2010	589,515	11,921	577,594	262,617	1,782	11,290	68	45,312	86	19,068	317,283	X X X
10. 2011	597,228	10,838	586,390	277,776	901	7,622	82	41,440	75	23,625	325,780	X X X
11. 2012	612,222	10,982	601,240	182,315	492	2,640	27	34,712	2	13,457	219,146	X X X
12. Totals	X X X	X X X	X X X	2,765,267	96,219	152,883	6,411	421,033	5,408	186,650	3,231,145	X X X

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR						
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	21 Direct and Assumed	22 Ceded	Salvage and Subrogation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding Direct and Assumed
1. Prior	75,105	19,821	29,962	4,954	2,494	259	5,442	737	6,480	3	2,905	93,709	X X X
2. 2003	3,807	623	1,891	455	98		492	41	383		423	5,552	X X X
3. 2004	5,258	1,171	2,112	501	130		563	48	533		617	6,876	X X X
4. 2005	5,918	424	2,685	607	148		972	51	678		894	9,319	X X X
5. 2006	6,000	1,257	3,969	753	199		1,448	111	791	1	3,024	10,285	X X X
6. 2007	11,456	604	6,016	878	301		1,825	160	1,071	2	1,125	19,025	X X X
7. 2008	15,901	1,319	7,268	1,167	415	5	3,776	234	1,564	5	3,164	26,194	X X X
8. 2009	25,763	957	12,000	1,340	601	10	6,234	284	2,752	15	2,564	44,744	X X X
9. 2010	38,457	264	18,641	1,784	704	3	11,529	397	4,343	25	4,007	71,201	X X X
10. 2011	57,926	300	36,358	1,734	1,033	31	15,388	222	7,866	36	9,124	116,248	X X X
11. 2012	82,558	246	88,336	1,105	940	3	20,689	91	14,237	113	15,994	205,202	X X X
12. Totals	328,149	26,986	209,238	15,278	7,063	311	68,358	2,376	40,698	200	43,841	608,355	X X X

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34	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	Inter-Company Pooling Participation Percentage	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	80,292	13,417
2. 2003	340,636	28,454	312,182	61.114	61.123	61.113			5.600	4,620	932
3. 2004	347,700	14,727	332,973	57.966	44.499	58.753			5.600	5,698	1,178
4. 2005	360,604	14,359	346,245	57.707	56.733	57.748			5.600	7,572	1,747
5. 2006	368,287	10,985	357,302	59.014	39.414	59.931			5.600	7,959	2,326
6. 2007	378,930	9,509	369,421	59.490	30.568	60.975			5.600	15,990	3,035
7. 2008	426,493	14,266	412,227	67.089	60.362	67.349			5.600	20,683	5,511
8. 2009	376,149	20,664	355,485	63.066	55.398	63.578			5.600	35,466	9,278
9. 2010	392,893	4,409	388,484	66.647	36.985	67.259			5.600	55,050	16,151
10. 2011	445,409	3,381	442,028	74.579	31.196	75.381			5.600	92,250	23,998
11. 2012	426,427	2,079	424,348	69.652	18.931	70.579			5.600	169,543	35,659
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	495,123	113,232

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 2003	2 2004	3 2005	4 2006	5 2007	6 2008	7 2009	8 2010	9 2011	10 2012	11 One Year	12 Two Year
1. Prior	322,872	323,464	327,098	330,010	331,283	322,474	339,235	346,229	350,634	348,744	(1,890)	2,515
2. 2003	290,345	285,024	277,923	276,486	278,395	276,254	275,244	274,133	273,891	273,114	(777)	(1,019)
3. 2004	XXX	326,526	318,604	314,456	300,775	298,945	295,496	294,697	294,024	293,515	(509)	(1,182)
4. 2005	XXX	XXX	340,738	327,774	311,569	309,585	305,813	304,992	304,067	304,334	267	(658)
5. 2006	XXX	XXX	XXX	335,339	328,499	319,920	312,769	313,793	314,331	314,717	386	924
6. 2007	XXX	XXX	XXX	XXX	359,438	349,904	328,027	327,856	326,956	326,616	(340)	(1,240)
7. 2008	XXX	XXX	XXX	XXX	XXX	389,046	371,351	369,899	365,570	363,783	(1,787)	(6,116)
8. 2009	XXX	XXX	XXX	XXX	XXX	XXX	332,114	321,646	316,131	311,040	(5,091)	(10,606)
9. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	351,997	343,858	339,270	(4,588)	(12,727)
10. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	402,257	393,116	(9,141)	XXX
11. 2012	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	375,712	XXX	XXX
									12. Totals		(23,470)	(30,109)

SCHEDULE P – PART 3 – SUMMARY

Years in Which Losses Were Incurred	CUMULATIVE PAID NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										11	12
	1 2003	2 2004	3 2005	4 2006	5 2007	6 2008	7 2009	8 2010	9 2011	10 2012	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
1. Prior	000	83,800	139,509	173,828	196,639	214,668	225,803	238,730	253,700	257,749	XXX	XXX
2. 2003	135,563	195,216	223,816	242,473	255,069	260,568	263,879	265,667	266,885	267,661	XXX	XXX
3. 2004	XXX	140,654	211,232	244,150	263,702	275,251	280,959	283,697	285,680	286,828	XXX	XXX
4. 2005	XXX	XXX	143,995	213,806	247,234	268,960	282,569	289,152	292,576	295,401	XXX	XXX
5. 2006	XXX	XXX	XXX	146,648	217,874	248,889	273,931	289,403	298,815	304,890	XXX	XXX
6. 2007	XXX	XXX	XXX	XXX	152,389	226,351	260,333	284,960	300,300	308,285	XXX	XXX
7. 2008	XXX	XXX	XXX	XXX	XXX	176,692	261,277	298,117	322,718	338,795	XXX	XXX
8. 2009	XXX	XXX	XXX	XXX	XXX	XXX	147,585	213,909	245,924	268,704	XXX	XXX
9. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	162,100	237,071	272,056	XXX	XXX
10. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	204,184	284,416	XXX	XXX
11. 2012	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	184,437	XXX	XXX

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 2003	2 2004	3 2005	4 2006	5 2007	6 2008	7 2009	8 2010	9 2011	10 2012
1. Prior	134,830	94,308	73,723	64,208	52,759	48,652	51,852	50,960	40,400	33,475
2. 2003	81,188	40,432	23,122	16,012	11,653	8,540	5,802	3,680	3,055	2,170
3. 2004	XXX	101,937	50,729	33,498	18,060	13,281	7,185	5,273	3,938	2,471
4. 2005	XXX	XXX	113,871	56,628	28,633	17,753	10,111	6,976	5,072	3,291
5. 2006	XXX	XXX	XXX	102,708	51,707	31,524	15,182	8,622	5,809	4,885
6. 2007	XXX	XXX	XXX	XXX	106,186	55,392	26,100	14,198	8,706	7,178
7. 2008	XXX	XXX	XXX	XXX	XXX	115,461	50,800	30,306	17,014	9,995
8. 2009	XXX	XXX	XXX	XXX	XXX	XXX	101,212	51,250	29,963	16,937
9. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	99,942	47,350	28,321
10. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	103,424	50,072
11. 2012	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	108,026

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated By States and Territories

States, Etc.		1 Active Status	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken 2 Direct Premiums Written	 3 Direct Premiums Earned	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)
1. Alabama	AL	L	3,769,209	4,052,539		1,786,199	1,282,161	2,832,310	44,065	
2. Alaska	AK	L	255,659	226,010		7,346	(28,891)	95,062	2,989	
3. Arizona	AZ	L	1,573,442	1,721,975		2,489,508	1,215,128	1,758,111	18,395	
4. Arkansas	AR	L	679,399	818,968		294,097	48,916	513,366	7,943	
5. California	CA	L	52,785,986	56,973,901		21,979,859	24,794,387	45,668,077	617,106	28,294
6. Colorado	CO	L	4,070,559	4,408,689		2,034,404	1,575,646	4,090,419	47,588	
7. Connecticut	CT	L	5,233,126	5,838,599		3,877,408	1,338,876	12,015,592	61,179	
8. Delaware	DE	L	10,206	9,574		50,968	140,170	96,468	119	
9. District of Columbia	DC	L	117,778	134,722		173,202	(273,643)	43,564	1,377	
10. Florida	FL	L	28,968,104	29,640,177		13,153,718	15,404,729	17,730,844	338,658	4,452
11. Georgia	GA	L	4,000,423	4,288,289		3,871,503	212,443	11,109,443	46,768	
12. Hawaii	HI	L								
13. Idaho	ID	L	3,691,454	3,923,992		1,755,411	190,669	2,100,022	43,156	
14. Illinois	IL	L	8,497,784	9,324,647		6,951,923	1,479,719	14,456,254	99,345	
15. Indiana	IN	L	1,884,668	2,121,990		2,520,426	1,821,516	13,663,211	22,033	20,061
16. Iowa	IA	L	343,374	375,694		389,061	498,146	217,215	4,014	
17. Kansas	KS	L	1,506,693	1,685,664		830,971	614,461	627,749	17,614	
18. Kentucky	KY	L	974,121	1,058,195		1,741,650	1,235,857	1,028,579	11,388	16,556
19. Louisiana	LA	L	4,286,367	4,723,743		1,896,164	1,781,844	4,720,496	50,111	17,588
20. Maine	ME	L	13,290	10,950			(144)	607	155	
21. Maryland	MD	L	901,354	952,499		812,636	692,995	5,071,325	10,537	
22. Massachusetts	MA	L	972,720	1,036,588		572,355	1,495,647	2,730,486	11,372	
23. Michigan	MI	L	2,236,069	2,428,355		3,185,378	(1,451,523)	13,240,777	26,141	33,045
24. Minnesota	MN	L	2,123,149	2,498,182		1,572,590	739,142	6,848,342	24,821	
25. Mississippi	MS	L	1,375,692	1,580,031		1,048,482	290,113	596,039	16,083	23,796
26. Missouri	MO	L	5,085,537	5,343,998		4,315,564	1,527,963	6,938,301	59,454	
27. Montana	MT	L	3,734,939	3,924,651		2,620,269	3,210,155	3,581,237	43,664	
28. Nebraska	NE	L	450,818	433,122		240,822	102,851	140,566	5,270	
29. Nevada	NV	L	1,334,292	1,702,249		2,078,287	981,137	942,058	15,599	
30. New Hampshire	NH	L	117,063	133,321		153,099	46,304	119,586	1,369	
31. New Jersey	NJ	N	659	1,166				5,000	8	
32. New Mexico	NM	L	1,275,721	1,587,323		722,626	1,304,143	1,947,458	14,914	
33. New York	NY	L	4,336,085	5,700,570		4,378,920	2,564,018	17,204,512	50,692	7,570
34. North Carolina	NC	L	605,189	650,061		857,858	(185,897)	602,869	7,075	
35. North Dakota	ND	L	760,685	797,511		192,121	15,806	124,103	8,893	
36. Ohio	OH	L	1,337,080	1,392,271		400,013	(24,773)	1,291,721	15,631	
37. Oklahoma	OK	L	3,214,903	3,011,285		1,447,059	1,422,232	1,172,713	37,585	
38. Oregon	OR	L	12,941,468	13,369,889		4,605,693	3,029,284	14,309,949	151,295	5,439
39. Pennsylvania	PA	L	2,037,848	2,216,253		1,815,300	405,777	8,431,449	23,824	
40. Rhode Island	RI	L	130,434	279,514		(780,979)	(676,033)	536,691	1,525	
41. South Carolina	SC	L	1,667,826	1,828,055		1,055,100	103,631	1,204,989	19,498	
42. South Dakota	SD	L	1,796,008	1,903,574		1,273,545	1,361,757	1,679,699	20,997	
43. Tennessee	TN	L	1,845,968	2,004,107		2,470,164	3,008,193	2,215,335	21,581	
44. Texas	TX	L	17,358,448	20,015,683		16,795,626	13,440,933	21,677,077	202,933	
45. Utah	UT	L	1,711,110	2,017,857		436,913	1,071,391	2,648,663	20,004	
46. Vermont	VT	L	73,327	70,175		104,021	186,020	293,660	857	
47. Virginia	VA	L	1,498,279	1,667,358		1,366,796	974,258	1,408,790	17,516	
48. Washington	WA	L	29,982,735	31,296,556		14,906,083	10,507,353	25,868,254	350,520	
49. West Virginia	WV	L	627,601	651,453		274,889	102,486	199,590	7,337	
50. Wisconsin	WI	L	540,172	549,313		393,886	579,317	2,585,634	6,315	
51. Wyoming	WY	L	1,417,630	1,550,019		980,275	295,897	1,014,059	16,573	
52. American Samoa	AS	N								
53. Guam	GU	N								
54. Puerto Rico	PR	N								
55. U.S. Virgin Islands	VI	N								
56. Northern Mariana Islands	MP	N								
57. Canada	CAN	N								
58. Aggregate Other Alien	OT	XXX								
59. Totals		(a) 50	226,152,451	243,931,307		136,099,209	100,452,567	279,398,321	2,643,886	156,801

DETAILS OF WRITE-INS									
58001.	XXX								
58002.	XXX								
58003.	XXX								
58998. Summary of remaining write-ins for Line 58 from overflow page	XXX								
58999. Totals (Lines 58001 through 58003 plus 58998) (Line 58 above)	XXX								

(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) Registered - Non-domiciled RRGs; (Q) Qualified - Qualified or Accredited Reinsurer; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines In the state; (N) None of the above - Not allowed to write business in the state.

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 employee's main work place - Worker's Compensation | *Location of Court or Obligee - Surety

*Location of Principal place of garaging of each individual car - Auto Liability, Auto Physical Damage | *Address of Assured - Other Accident and Health

*Principal Location of business or location of coverage - Liability other than Auto, Fidelity, Warranty | *Location of Properties covered - Burglary and Theft

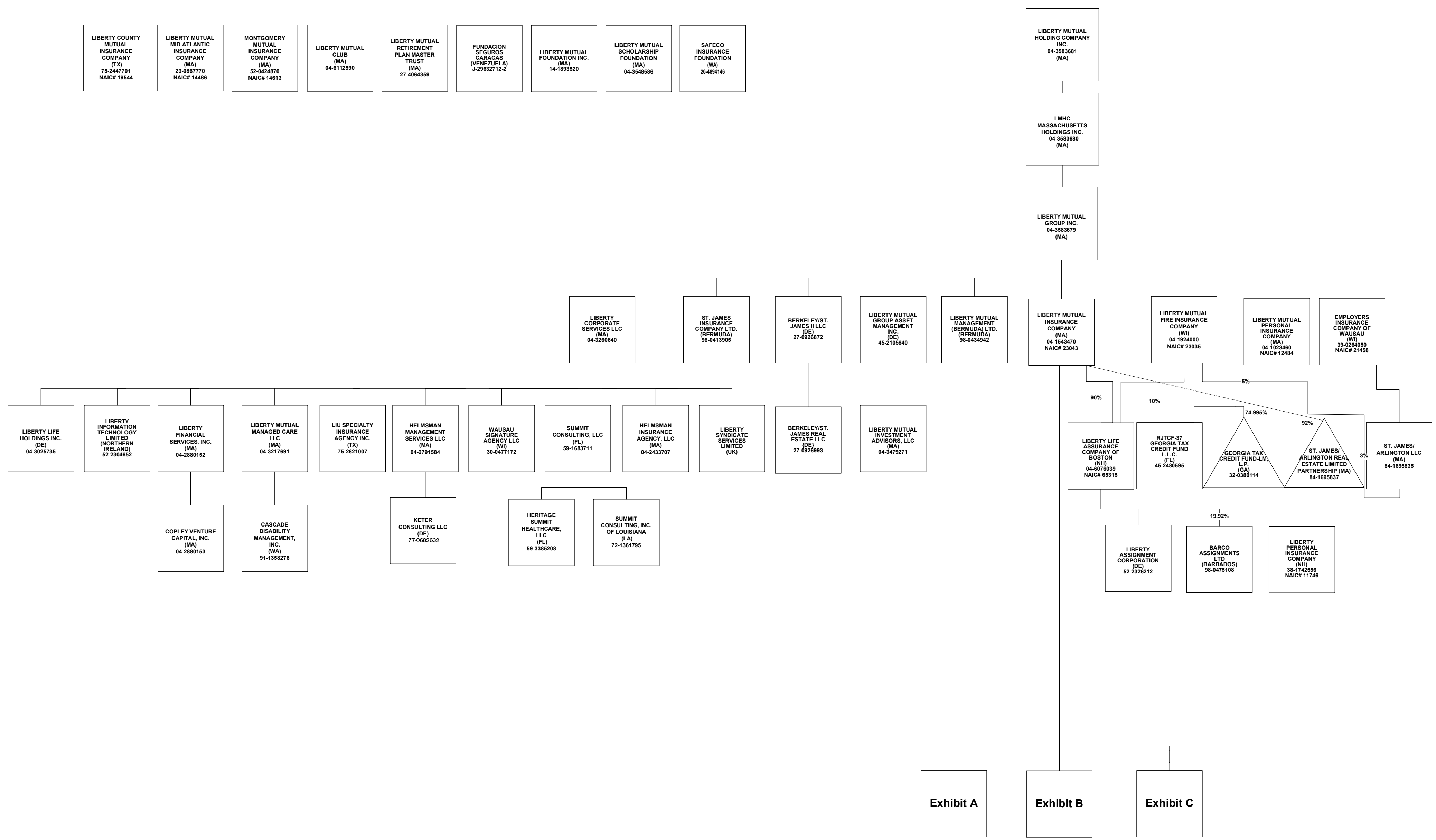
*Point of origin of shipment or principal location of assured - Inland Marine | *Principal Location of Assured - Ocean Marine, Credit

*State in which employees regularly work - Group Accident and Health | *Primary residence of Assured - Aircraft (all perils)

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

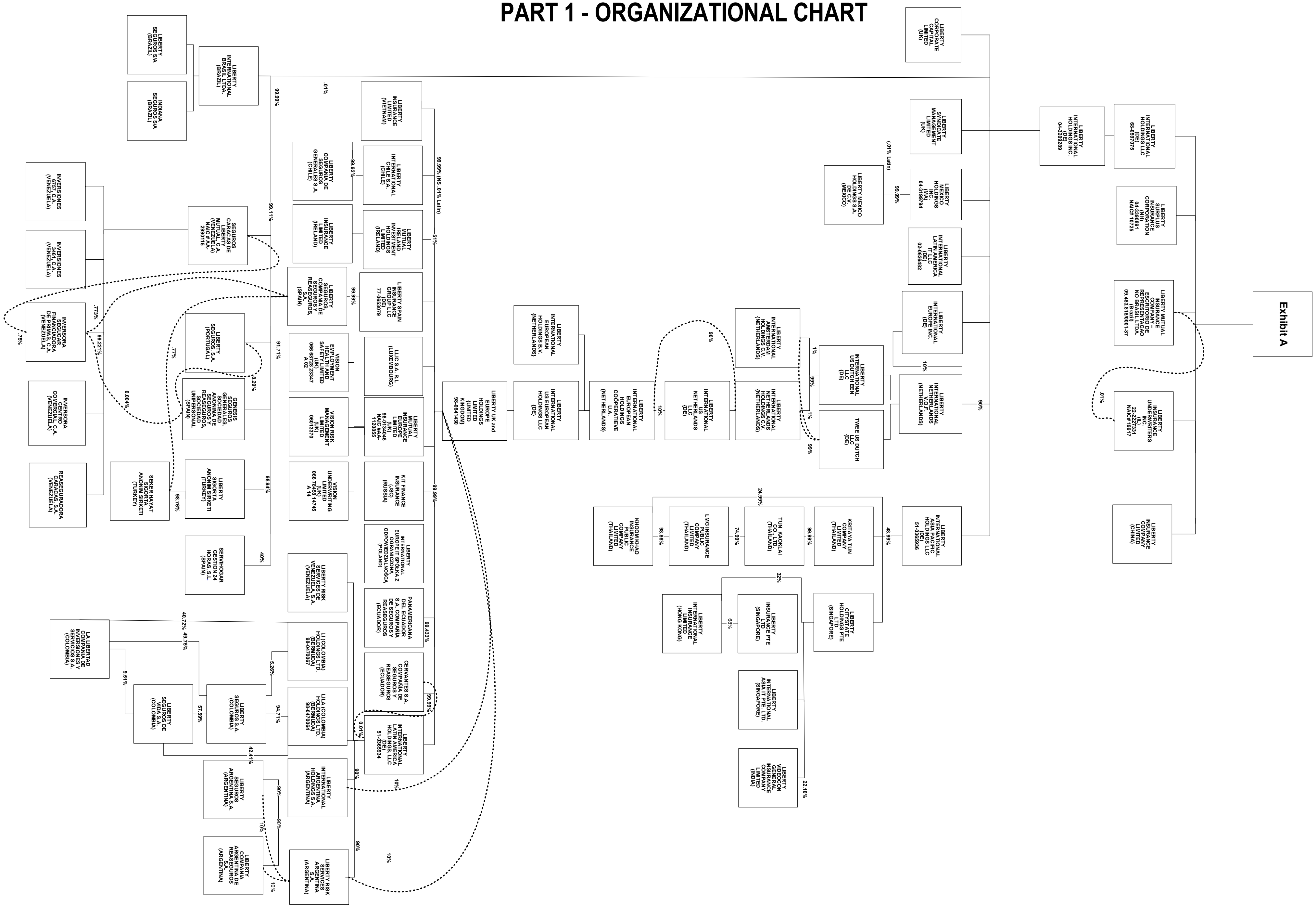
SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



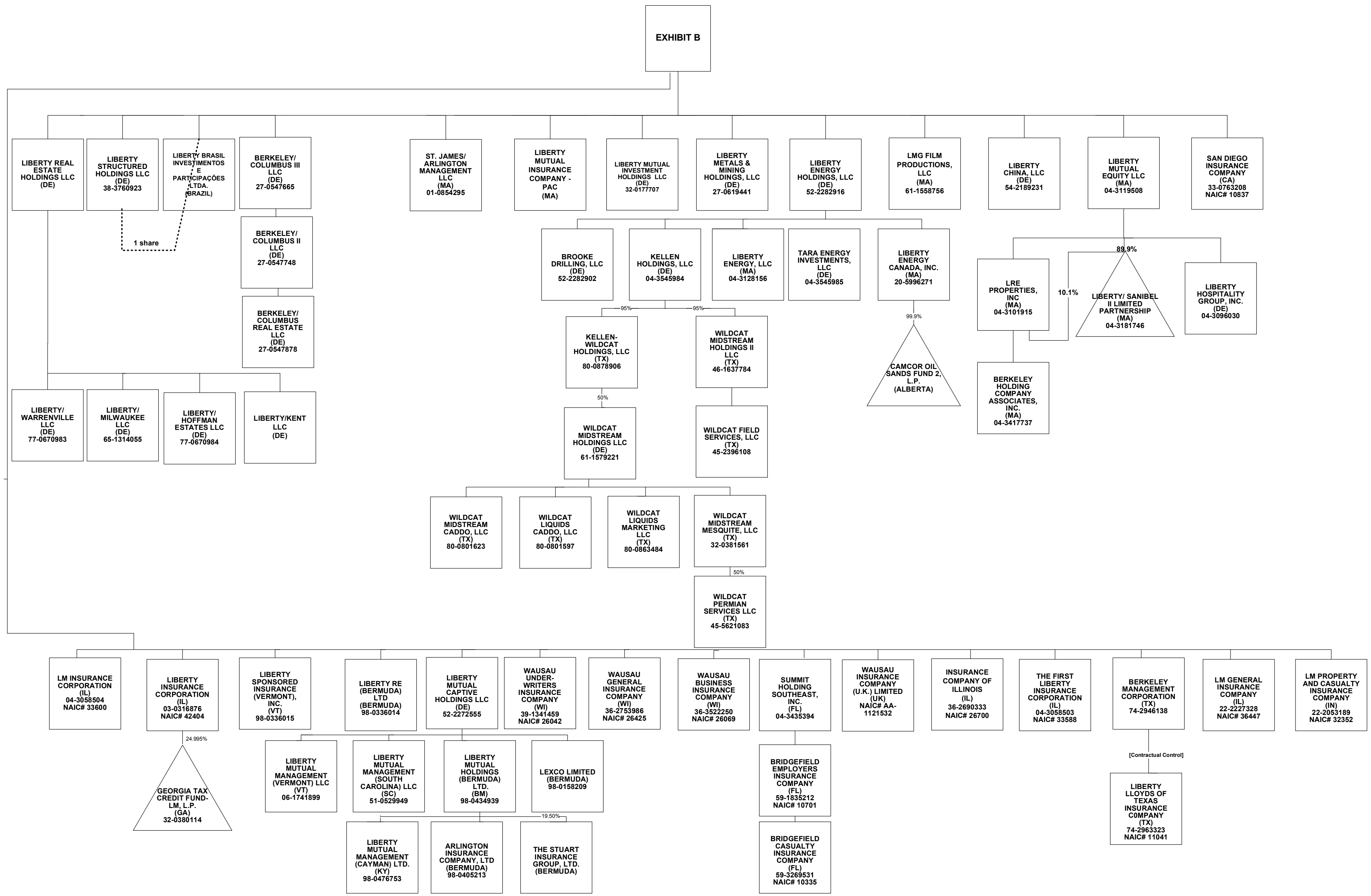
SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



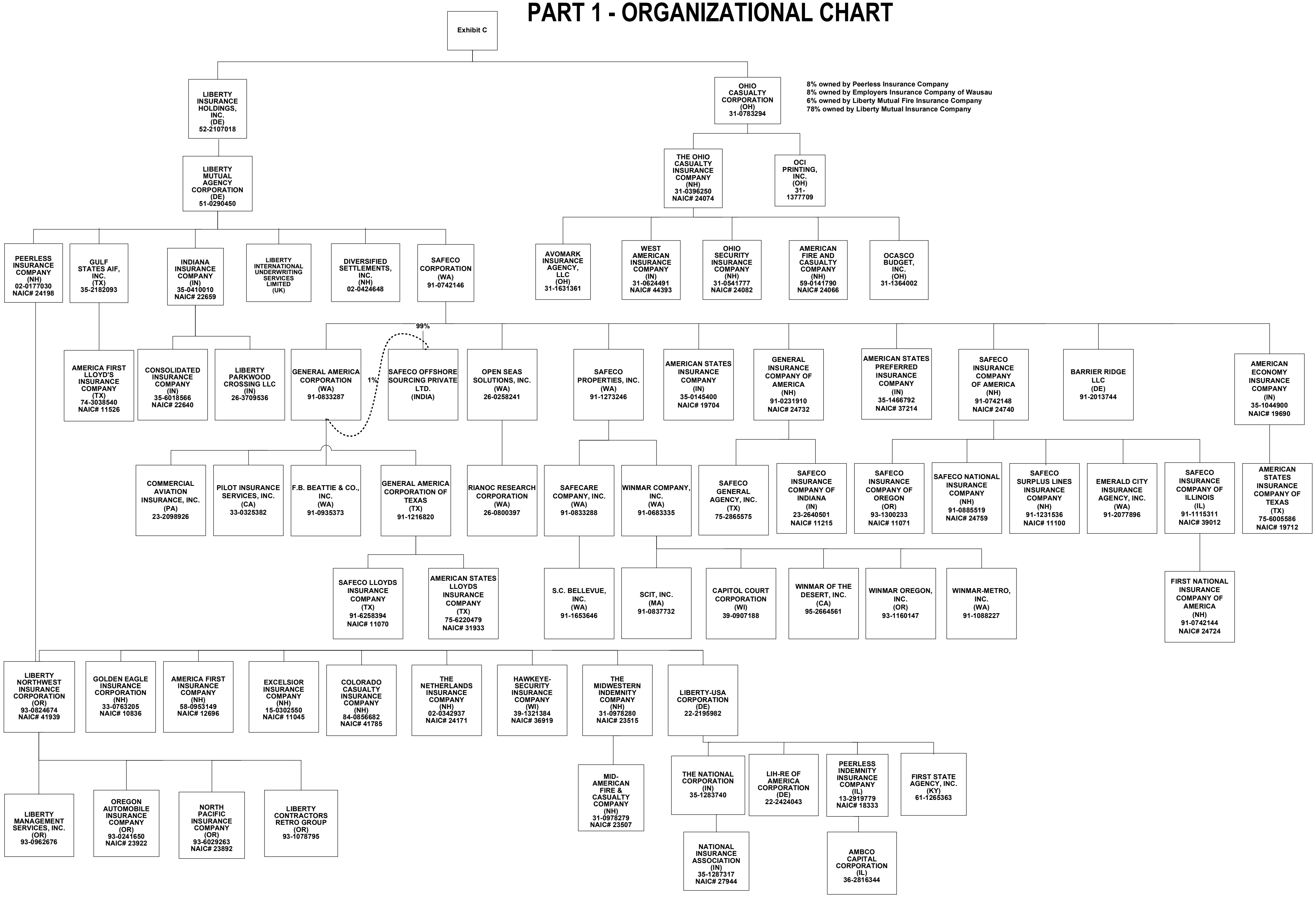
SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



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

PART 1 - ORGANIZATIONAL CHART



OVERFLOW PAGE FOR WRITE-INS

ALPHABETICAL INDEX TO PROPERTY ANNUAL STATEMENT

ALPHABETICAL INDEX TO PROPERTY ANNUAL STATEMENT