

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, 2009

PROPERTY AND CASUALTY

2009

ANNUAL STATEMENT



19690200920100100

For the Year Ended December 31, 2009
OF THE CONDITION AND AFFAIRS OF THE

American Economy Insurance Company

NAIC Group Code	<u>0111</u> <small>(Current Period)</small>	<u>0111</u> <small>(Prior Period)</small>	NAIC Company Code	<u>19690</u>	Employer's ID Number	<u>35-1044900</u>
Organized under the Laws of	<u>Indiana</u>			State of Domicile or Port of Entry <u>Indiana</u>		
Country of Domicile	<u>United States of America</u>					
Incorporated/Organized:	<u>October 19, 1959</u>			Commenced Business: <u>October 23, 1959</u>		
Statutory Home Office:	<u>500 North Meridian Street</u> <small>(Street and Number)</small>			<u>Indianapolis, IN 46204</u> <small>(City or Town, State and Zip Code)</small>		
Main Administrative Office:	<u>1001 Fourth Avenue, Safeco Plaza</u> <small>(Street and Number)</small>			<u>Seattle, WA 98154</u> <small>(City or Town, State and Zip Code)</small>		
				<u>206-545-5000</u> <small>(Area Code) (Telephone Number)</small>		
Mail Address:	<u>175 Berkeley Street</u> <small>(Street and Number or P.O. Box)</small>			<u>Boston, MA 02116</u> <small>(City or Town, State and Zip Code)</small>		
Primary Location of Books and Records:	<u>175 Berkeley Street</u> <small>(Street and Number)</small>			<u>Boston, MA 02116</u> <small>(City or Town, State and Zip Code)</small>		<u>617-357-9500</u> <small>(Area Code) (Telephone Number)</small>
Internet Web Site Address:	<u>WWW.SAFECO.COM</u>					
Statutory Statement Contact:	<u>Joanne Connolly</u> <small>(Name)</small>			<u>617-357-9500 x44393</u> <small>(Area Code) (Telephone Number) (Extension)</small>		
	<u>Statutory.Compliance@LibertyMutual.com</u> <small>(E-Mail Address)</small>			<u>617-574-5955</u> <small>(Fax Number)</small>		

OFFICERS

Chairman of the Board

Gary Richard Gregg

	Name	Title
1.	<u>Gary Richard Gregg #</u>	<u>President and Chief Executive Officer</u>
2.	<u>Dexter Robert Legg</u>	<u>Secretary</u>
3.	<u>Michael Joseph Fallon</u>	<u>Chief Financial Officer and Treasurer</u>

VICE-PRESIDENTS

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

DIRECTORS OR TRUSTEES

<u>John Derek Doyle</u>	<u>Michael Joseph Fallon</u>	<u>Joseph Anthony Gilles</u>	<u>Scott Rhodes Goodby</u>
<u>Gary Richard Gregg</u>	<u>Kevin John Kirschner</u>	<u>Christopher Charles Mansfield</u>	

State of Massachusetts

County of Suffolk ss

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

_____ (Signature) <u>Gary Richard Gregg #</u> _____ (Printed Name) 1. President and Chief Executive Officer _____ (Title)	_____ (Signature) <u>Dexter Robert Legg</u> _____ (Printed Name) 2. Secretary _____ (Title)	_____ (Signature) <u>Michael Joseph Fallon</u> _____ (Printed Name) 3. Chief Financial Officer and Treasurer _____ (Title)
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Subscribed and sworn to (or affirmed) before me on this
1st day of February, 2010, by

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

ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D)	1,143,819,088		1,143,819,088	972,983,469
2. Stocks (Schedule D):				
2.1 Preferred stocks	28,935,150		28,935,150	34,573,382
2.2 Common stocks	30,598,833		30,598,833	21,443,495
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens	10,739,145		10,739,145	
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 (\$ 5,564,097, Schedule E - Part 1), cash equivalents (\$ 2,134,080, Schedule E - Part 2), and short-term investments (\$ 47,731,290, Schedule DA)	55,429,467		55,429,467	111,773,748
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)	1		1	
8. Receivables for securities				107,756
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	1,269,521,684		1,269,521,684	1,140,881,850
11. Title plants less \$ 0 charged off (for Title insurers only)				
12. Investment income due and accrued	14,518,720		14,518,720	14,431,108
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	25,708,002	3,521,187	22,186,815	69,671,737
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ (3,972,105) earned but unbilled premiums)	157,439,502	(97,758)	157,537,260	117,162,078
13.3 Accrued retrospective premiums	1,039,479	125,016	914,463	326,924
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	22,903,080		22,903,080	24,995,531
14.2 Funds held by or deposited with reinsured companies				
14.3 Other amounts receivable under reinsurance contracts				
15. Amounts receivable relating to uninsured plans				
16.1 Current federal and foreign income tax recoverable and interest thereon	93,943		93,943	13,329,106
16.2 Net deferred tax asset	68,409,600	16,963,100	51,446,500	38,055,533
17. Guaranty funds receivable or on deposit	1,036,769		1,036,769	1,090,663
18. Electronic data processing equipment and software				
19. Furniture and equipment, including health care delivery assets (\$ 0)				
20. Net adjustment in assets and liabilities due to foreign exchange rates				
21. Receivables from parent, subsidiaries and affiliates	1,245,430		1,245,430	17,894,729
22. Health care (\$ 0) and other amounts receivable				
23. Aggregate write-ins for other than invested assets	6,102,200	1,387,047	4,715,153	621,081
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	1,568,018,409	21,898,592	1,546,119,817	1,438,460,340
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	1,568,018,409	21,898,592	1,546,119,817	1,438,460,340

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 9 above)				
2301. Cash Surrender Value Life Insurance	3,173,439		3,173,439	
2302. Other Assets	1,599,374	1,387,047	212,327	621,081
2303. Equities and deposits in pools and associations	1,329,387		1,329,387	
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	6,102,200	1,387,047	4,715,153	621,081

LIABILITIES, SURPLUS AND OTHER FUNDS

	1	2
	Current Year	Prior Year
1. Losses (Part 2A, Line 35, Column 8)	526,416,697	542,818,524
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	33,937,724	37,317,391
3. Loss adjustment expenses (Part 2A, Line 35, Column 9)	125,330,551	126,537,370
4. Commissions payable, contingent commissions and other similar charges	14,917,027	20,105,667
5. Other expenses (excluding taxes, licenses and fees)	17,708,600	35,678,759
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	5,368,189	10,162,081
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))		
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 \$ 159,732,236 and including warranty reserves of \$ 0)	257,663,511	282,825,872
10. Advance premium	1,834,069	4,443,431
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders	475,439	918,478
12. Ceded reinsurance premiums payable (net of ceding commissions)	10,854,026	23,767,735
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	(169,811)	2,518,792
15. Remittances and items not allocated		
16. Provision for reinsurance (Schedule F, Part 7)		
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding	18,401,187	
19. Payable to parent, subsidiaries and affiliates	2,918,616	39,169,322
20. Payable for securities		2,562
21. Liability for amounts held under uninsured plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	21,833,326	3,045,346
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	1,037,489,151	1,129,311,330
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	1,037,489,151	1,129,311,330
27. Aggregate write-ins for special surplus funds	19,012,578	
28. Common capital stock	5,000,000	5,000,000
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes		
32. Gross paid in and contributed surplus	343,581,801	225,413,332
33. Unassigned funds (surplus)	141,036,287	78,735,678
34. Less treasury stock, at cost:		
34.1 0 shares common (value included in Line 28 \$ 0)		
34.2 0 shares preferred (value included in Line 29 \$ 0)		
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 39)	508,630,666	309,149,010
36. Totals (Page 2, Line 26, Col. 3)	1,546,119,817	1,438,460,340

DETAILS OF WRITE-IN LINES		
2301. Collateral held for securities held	7,737,537	
2302. Retroactive reinsurance reserves	5,043,834	
2303. Other liabilities	4,205,533	2,767,636
2398. Summary of remaining write-ins for Line 23 from overflow page	4,846,422	277,710
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	21,833,326	3,045,346
2701. SSAP 10R incremental change	17,896,161	
2702. Special surplus from retroactive reinsurance	1,116,417	
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page		
2799. Totals (Lines 2701 through 2703 plus 2798) (Line 27 above)	19,012,578	
3001.		
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page		
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)		

STATEMENT OF INCOME

	1	2
	Current Year	Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 35, Column 4)	586,685,671	774,160,269
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 35, Column 7)	297,538,442	429,776,183
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	69,657,215	89,004,627
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	194,757,093	234,757,918
5. Aggregate write-ins for underwriting deductions	91,528	
6. Total underwriting deductions (Lines 2 through 5)	562,044,278	753,538,728
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	24,641,393	20,621,541
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	56,808,372	58,772,529
10. Net realized capital gains (losses) less capital gains tax of \$ (1,024,828) (Exhibit of Capital Gains (Losses))	(1,903,251)	(9,137,594)
11. Net investment gain (loss) (Lines 9 + 10)	54,905,121	49,634,935
OTHER INCOME		
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ 26,277 amount charged off \$ 2,623,222)	(2,596,945)	(4,641,486)
13. Finance and service charges not included in premiums	5,001,924	3,624,979
14. Aggregate write-ins for miscellaneous income	(3,405,093)	2,274,368
15. Total other income (Lines 12 through 14)	(1,000,114)	1,257,861
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	78,546,400	71,514,337
17. Dividends to policyholders	2,510,199	930,371
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)	76,036,201	70,583,966
19. Federal and foreign income taxes incurred	13,760,528	8,355,046
20. Net income (Line 18 minus Line 19) (to Line 22)	62,275,673	62,228,920
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	309,149,009	400,334,027
22. Net income (from Line 20)	62,275,673	62,228,920
23. Net transfers (to) from Protected Cell accounts		
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ 4,205,954	8,660,867	(31,019,580)
25. Change in net unrealized foreign exchange capital gain (loss)		
26. Change in net deferred income tax	405,165	(10,950,869)
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	(1,131,030)	(4,757,004)
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		4,458,964
32. Capital changes:		
32.1 Paid in		
32.2 Transferred from surplus (Stock Dividend)		
32.3 Transferred to surplus		
33. Surplus adjustments:		
33.1 Paid in	118,168,469	
33.2 Transferred to capital (Stock Dividend)		
33.3 Transferred from capital		
34. Net remittances from or (to) Home Office		
35. Dividends to stockholders	(7,200,000)	(107,000,000)
36. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)		
37. Aggregate write-ins for gains and losses in surplus	18,302,513	(4,145,449)
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	199,481,657	(91,185,018)
39. Surplus as regards policyholders, as of December 31 current year (Lines 21 plus Line 38) (Page 3, Line 35)	508,630,666	309,149,009

DETAILS OF WRITE-IN LINES		
0501. Private Passenger Auto Escrow	91,528	
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)	91,528	
1401. Retroactive reinsurance gain/(loss)	(75,635)	
1402. Other income/(expense)	(3,329,458)	2,274,368
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page		
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	(3,405,093)	2,274,368
3701. SSAP 10R incremental change	17,896,161	
3702. Other changes in surplus	406,352	(4,145,449)
3703.		
3798. Summary of remaining write-ins for Line 37 from overflow page		
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)	18,302,513	(4,145,449)

CASH FLOW

	1	2
Cash from Operations	Current Year	Prior Year
1. Premiums collected net of reinsurance	506,166,244	756,687,169
2. Net investment income	58,218,877	59,612,614
3. Miscellaneous income	(3,481,603)	1,257,861
4. Total (Lines 1 through 3)	560,903,518	817,557,644
5. Benefit and loss related payments	296,826,298	418,738,514
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	289,507,513	324,301,983
8. Dividends paid to policyholders	2,953,240	1,039,243
9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)	(499,463)	12,740,741
10. Total (Lines 5 through 9)	588,787,588	756,820,481
11. Net cash from operations (Line 4 minus Line 10)	(27,884,070)	60,737,163
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	406,680,289	105,087,471
12.2 Stocks	16,249,922	155,326,953
12.3 Mortgage loans	33,273	
12.4 Real estate		
12.5 Other invested assets		63,000
12.6 Net gains (or losses) on cash, cash equivalents and short-term investments	30,143	(39,584)
12.7 Miscellaneous proceeds	(6,418)	
12.8 Total investment proceeds (Lines 12.1 to 12.7)	422,987,209	260,437,840
13. Cost of investments acquired (long-term only):		
13.1 Bonds	578,879,789	71,777,165
13.2 Stocks	9,963,952	71,069,332
13.3 Mortgage loans	10,772,417	
13.4 Real estate		
13.5 Other invested assets		3,300
13.6 Miscellaneous applications	2,576	2,542,729
13.7 Total investments acquired (Lines 13.1 to 13.6)	599,618,734	145,392,526
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)	(176,631,525)	115,045,314
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	118,168,469	
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders	7,200,000	107,000,000
16.6 Other cash provided (applied)	37,202,844	16,111,927
17. Net cash from financing and miscellaneous sources (Lines 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	148,171,313	(90,888,073)
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)	(56,344,282)	84,894,404
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	111,773,749	26,879,345
19.2 End of year (Line 18 plus Line 19.1)	55,429,467	111,773,749

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

20.0001		
20.0002		
20.0003		

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 – PREMIUMS EARNED

Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year- per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year- per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire	6,018,785	8,946,679	5,321,179	9,644,285
2. Allied lines	5,661,283	6,585,612	4,280,725	7,966,170
3. Farmowners multiple peril	4,030,262	2,081,178	2,076,528	4,034,912
4. Homeowners multiple peril	50,632,755	43,257,435	42,031,108	51,859,082
5. Commercial multiple peril	120,780,968	40,157,366	54,672,335	106,265,999
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine	9,979,376	4,829,163	4,661,168	10,147,371
10. Financial guaranty				
11.1 Medical professional liability—occurrence	(3,659)	91,516	22,642	65,215
11.2 Medical professional liability—claims-made	2,233	5,551	2,200	5,584
12. Earthquake	704,094	2,367,141	1,006,377	2,064,858
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health	(547,466)	949,515	4,459	397,590
16. Workers' compensation	90,055,246	7,271,431	21,144,298	76,182,379
17.1 Other liability—occurrence	32,911,493	13,810,463	15,652,181	31,069,775
17.2 Other liability—claims-made	(423,110)	2,293,580	555,640	1,314,830
17.3 Excess Workers' Compensation	80,838		27,508	53,330
18.1 Products liability—occurrence	1,068,728	382,080	540,991	909,817
18.2 Products liability—claims-made				
19.1,19.2 Private passenger auto liability	87,392,643	50,830,178	31,831,586	106,391,235
19.3,19.4 Commercial auto liability	52,506,501	22,793,149	24,080,743	51,218,907
21. Auto physical damage	74,089,927	39,092,517	28,071,642	85,110,802
22. Aircraft (all perils)				
23. Fidelity	625,452	54,496	306,969	372,979
24. Surety	31,098,780	34,651,462	24,187,478	41,562,764
26. Burglary and theft	28,482	14,817	10,711	32,588
27. Boiler and machinery	17,091		1,898	15,193
28. Credit				
29. International				
30. Warranty				
31. Reinsurance-Nonproportional Assumed Property				
32. Reinsurance-Nonproportional Assumed Liability	6			6
33. Reinsurance-Nonproportional Assumed Financial Lines				
34. Aggregate write-ins for other lines of business				
35. TOTALS	566,710,708	280,465,329	260,490,366	586,685,671

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	5,321,177	2			5,321,179
2. Allied lines	4,280,703	23			4,280,726
3. Farmowners multiple peril	2,076,528				2,076,528
4. Homeowners multiple peril	42,031,108				42,031,108
5. Commercial multiple peril	53,314,974		1,354,207	3,154	54,672,335
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	4,631,983	29,173	12		4,661,168
10. Financial guaranty					
11.1 Medical professional liability—occurrence	22,642				22,642
11.2 Medical professional liability—claims-made	2,200				2,200
12. Earthquake	1,006,377				1,006,377
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health	4,459				4,459
16. Workers' compensation	20,019,005	6,182	1,078,099	41,012	21,144,298
17.1 Other liability—occurrence	15,309,847	77,871	258,346	6,117	15,652,181
17.2 Other liability—claims-made	553,915	1,069	656		555,640
17.3 Excess Workers' Compensation	27,508				27,508
18.1 Products liability—occurrence	453,817		87,175		540,992
18.2 Products liability—claims-made					
19.1,19.2 Private passenger auto liability	31,831,581		6		31,831,587
19.3,19.4 Commercial auto liability	23,804,717	277,954	12	(1,941)	24,080,742
21. Auto physical damage	28,008,310	63,332			28,071,642
22. Aircraft (all perils)					
23. Fidelity	112,578	194,391			306,969
24. Surety	10,558,869	13,628,609			24,187,478
26. Burglary and theft	10,711				10,711
27. Boiler and machinery	1,898				1,898
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	243,384,907	14,278,606	2,778,513	48,342	260,490,368
36. Accrued retrospective premiums based on experience					(48,342)
37. Earned but unbilled premiums					(2,778,513)
38. Balance (Sum of Lines 35 through 37)					257,663,513

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	Reinsurance Assumed		Reinsurance Ceded		6
	Direct Business (a)	2 From Affiliates	3 From Non- Affiliates	4 To Affiliates	5 To Non- Affiliates	Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
1. Fire	2,949,981	6,018,785		2,949,981		6,018,785
2. Allied lines	2,802,238	5,661,283		2,802,238		5,661,283
3. Farmowners multiple peril	7,272,236	4,030,262		7,272,236		4,030,262
4. Homeowners multiple peril	144,504	50,632,755		144,504		50,632,755
5. Commercial multiple peril	231,197,237	120,780,968		231,197,237		120,780,968
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	1,189,994	9,979,376		1,189,994		9,979,376
10. Financial guaranty						
11.1 Medical professional liability--occurrence		(3,659)				(3,659)
11.2 Medical professional liability--claims-made		2,233				2,233
12. Earthquake	1,480,374	704,094		1,480,374		704,094
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health		(547,466)				(547,466)
16. Workers' compensation	26,015,064	90,055,246		26,015,064		90,055,246
17.1 Other liability—occurrence	3,369,267	32,911,493		3,369,267		32,911,493
17.2 Other liability—claims-made	13,141	(423,110)		13,141		(423,110)
17.3 Excess Workers' Compensation		80,838				80,838
18.1 Products liability—occurrence	490,793	1,068,728		490,793		1,068,728
18.2 Products liability—claims-made						
19.1,19.2 Private passenger auto liability	437,452	87,392,643		437,452		87,392,643
19.3,19.4 Commercial auto liability	38,583,942	52,506,501		38,583,942		52,506,501
21. Auto physical damage	8,240,723	74,089,927		8,240,723		74,089,927
22. Aircraft (all perils)						
23. Fidelity	50,957	625,452		50,957		625,452
24. Surety	84,395	31,098,780		84,395		31,098,780
26. Burglary and theft	10,743	28,482		10,743		28,482
27. Boiler and machinery	225,099	17,091		225,099		17,091
28. Credit						
29. International						
30. Warranty						
31. Reinsurance-Nonproportional Assumed Property	X X X					
32. Reinsurance-Nonproportional Assumed Liability	X X X	6				6
33. Reinsurance-Nonproportional Assumed Financial Lines	X X X					
34. Aggregate write-ins for other lines of business						
35. TOTALS	324,558,140	566,710,708		324,558,140		566,710,708

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 2A – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Line of Business	Reported Losses				Incurred But Not Reported			Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	Net Unpaid Loss Adjustment Expenses
	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded		
1. Fire	136,765	1,238,853	136,765	1,238,853	107,882	493,876	107,882	1,732,729	214,468
2. Allied lines	1,089,552	1,278,885	1,089,552	1,278,885	106,411	169,357	106,411	1,448,242	144,937
3. Farmowners multiple peril	808,475	1,157,021	808,475	1,157,021	271,821	209,555	271,821	1,366,576	312,587
4. Homeowners multiple peril	314,306	12,330,007	314,306	12,330,007	3,115	3,972,561	3,115	16,302,568	3,440,919
5. Commercial multiple peril	127,188,221	54,972,396	127,188,221	54,972,396	57,682,299	35,416,930	57,682,299	90,389,326	45,079,771
6. Mortgage guaranty									
8. Ocean marine		819		819				819	(1)
9. Inland marine	26,000	625,493	26,000	625,493	41,951	857,494	41,951	1,482,987	196,910
10. Financial guaranty									
11.1 Medical professional liability—occurrence		49,930		49,930		71,895		121,825	54,189
11.2 Medical professional liability—claims-made		23,240		23,240		3,889		27,129	6,576
12. Earthquake	35,000	3,369	35,000	3,369				3,369	(409)
13. Group accident and health								(a)	
14. Credit accident and health (group and individual)									
15. Other accident and health		430,928		430,928				(a)	430,928
16. Workers' compensation	49,554,435	105,927,923	49,554,435	105,927,923	17,147,994	86,066,335	17,147,994	191,994,258	26,415,451
17.1 Other liability—occurrence	7,192,510	18,382,271	7,192,510	18,382,271	2,213,085	31,411,207	2,213,085	49,793,478	16,907,991
17.2 Other liability—claims-made	3,500	835,659	3,500	835,659	11,508	746,598	11,508	1,582,257	1,010,632
17.3 Excess Workers' Compensation		33,445		33,445		(8,983)		24,462	(6,653)
18.1 Products liability—occurrence	1,417,619	1,041,126	1,417,619	1,041,126	218,736	584,938	218,736	1,626,064	800,291
18.2 Products liability—claims-made						43		43	
19.1,19.2 Private passenger auto liability	20,819,108	67,442,989	20,819,108	67,442,989	665,018	14,864,089	665,018	82,307,078	16,527,816
19.3,19.4 Commercial auto liability	24,657,698	32,295,117	24,657,698	32,295,117	18,237,254	22,044,720	18,237,254	54,339,837	8,357,334
21. Auto physical damage	350,998	2,291,022	350,998	2,291,022	37,888	1,730,947	37,888	4,021,969	1,186,466
22. Aircraft (all perils)		5,998		5,998		(43,980)		(37,982)	
23. Fidelity	2,415	29,640	2,415	29,640	642	96,481	642	126,121	25,804
24. Surety		(2,924,108)		(2,924,108)	38,473	19,738,218	38,473	16,814,110	4,640,736
26. Burglary and theft		8,659		8,659		404		9,063	3,544
27. Boiler and machinery					5,247	2,909	5,247	2,909	5,191
28. Credit									
29. International									
30. Warranty									
31. Reinsurance-Nonproportional Assumed Property	X X X				X X X				
32. Reinsurance-Nonproportional Assumed Liability	X X X	5,708,096		5,708,096	X X X	4,798,438		10,506,534	6,006
33. Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
34. Aggregate write-ins for other lines of business									
35. TOTALS	233,596,602	303,188,778	233,596,602	303,188,778	96,789,324	223,227,921	96,789,324	526,416,699	125,330,552

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	2	3	4
	Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1. Claim adjustment services:				
1.1 Direct	(4,800,342)			(4,800,342)
1.2 Reinsurance assumed	19,865,037			19,865,037
1.3 Reinsurance ceded	(4,800,342)			(4,800,342)
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	19,865,037			19,865,037
2. Commission and brokerage:				
2.1 Direct, excluding contingent		47,878,062		47,878,062
2.2 Reinsurance assumed, excluding contingent		84,423,996		84,423,996
2.3 Reinsurance ceded, excluding contingent		47,878,062		47,878,062
2.4 Contingent—direct				
2.5 Contingent—reinsurance assumed		9,187,156		9,187,156
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)		93,611,152		93,611,152
3. Allowances to manager and agents		46,774	1	46,775
4. Advertising	676,403	3,157,739	1,519	3,835,661
5. Boards, bureaus and associations	58,158	1,418,607	45	1,476,810
6. Surveys and underwriting reports	10,638	3,098,615	1,573	3,110,826
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries	23,738,664	37,678,781	283,866	61,701,311
8.2 Payroll taxes	1,424,647	3,334,820	16,283	4,775,750
9. Employee relations and welfare	4,786,486	11,812,879	15,792	16,615,157
10. Insurance	2,818,523	380,992	3,295	3,202,810
11. Directors' fees		1,493		1,493
12. Travel and travel items	1,264,036	2,428,741	5,193	3,697,970
13. Rent and rent items	2,789,599	4,589,998	5,157	7,384,754
14. Equipment	1,657,823	3,127,115	4,562	4,789,500
15. Cost or depreciation of EDP equipment and software	974,632	1,639,239	2,339	2,616,210
16. Printing and stationery	226,337	773,038	749	1,000,124
17. Postage, telephone and telegraph, exchange and express	974,097	3,136,919	9,369	4,120,385
18. Legal and auditing	182,040	747,423	12,350	941,813
19. Totals (Lines 3 to 18)	41,582,083	77,373,173	362,093	119,317,349
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 206,401		14,150,387		14,150,387
20.2 Insurance department licenses and fees		1,220,881		1,220,881
20.3 Gross guaranty association assessments		(80,024)		(80,024)
20.4 All other (excluding federal and foreign income and real estate)		490,499		490,499
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		15,781,743		15,781,743
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	8,210,096	7,991,025	51,052	16,252,173
25. Total expenses incurred	69,657,216	194,757,093	413,145	(a) 264,827,454
26. Less unpaid expenses—current year	125,330,551	37,993,815		163,324,366
27. Add unpaid expenses—prior year	126,537,370	65,946,507		192,483,877
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)	70,864,035	222,709,785	413,145	293,986,965

DETAILS OF WRITE-IN LINES				
2401. Other expenses	3,091,368	7,991,025	51,052	11,133,445
2402. Change in unallocated expense reserves	5,118,728			5,118,728
2403.				
2498. Sum of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	8,210,096	7,991,025	51,052	16,252,173

(a) Includes management fees of \$ 410,961 to affiliates and \$ 2,956 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 6,951,475	7,744,570
1.1 Bonds exempt from U.S. tax	(a) 27,416,240	26,948,705
1.2 Other bonds (unaffiliated)	(a) 19,686,310	19,339,323
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b) 2,193,162	2,219,811
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	16,545	16,545
2.21 Common stocks of affiliates		
3. Mortgage loans	(c) 81,947	141,484
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 826,715	820,094
7. Derivative instruments	(f)	
8. Other invested assets	808	808
9. Aggregate write-ins for investment income	(9,824)	(9,824)
10. Total gross investment income	57,163,378	57,221,516
11. Investment expenses		(g) 413,145
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)		413,145
17. Net investment income (Line 10 minus Line 16)		56,808,371

DETAILS OF WRITE-IN LINES			
0901. Miscellaneous Income/(Expense)		385,978	385,978
0902. Miscellaneous Income/(Expense) - Pooling Restatement		(395,802)	(395,802)
0903.			
0998. Summary of remaining write-ins for Line 09 from overflow page			
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 09 above)		(9,824)	(9,824)
1501.	NONE		
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 \$ 904,386 accrual of discount less \$ 2,373,782 amortization of premium and less \$ 976,657 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 \$ 35,253 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 \$ 137,740 accrual of discount less \$ 0 amortization of premium and less \$ 10,934 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	(23,434)		(23,434)		
1.1 Bonds exempt from U.S. tax	1,609,103	(1,792,797)	(183,694)		
1.2 Other bonds (unaffiliated)	(310,781)	(1,528,478)	(1,839,259)	3,202,283	
1.3 Bonds of affiliates					
2.1 Preferred stocks (unaffiliated)	461,319	(1,668,750)	(1,207,431)	6,801,768	
2.11 Preferred stocks of affiliates					
2.2 Common stocks (unaffiliated)	295,595		295,595	2,012,960	
2.21 Common stocks of affiliates				849,809	
3. Mortgage loans					
4. Real estate					
5. Contract loans					
6. Cash, cash equivalents and short-term investments	45,965	(15,822)	30,143		
7. Derivative instruments					
8. Other invested assets				1	
9. Aggregate write-ins for capital gains (losses)					
10. Total capital gains (losses)	2,077,767	(5,005,847)	(2,928,080)	12,866,821	

DETAILS OF WRITE-IN LINES					
0901.	NONE				
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			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E - Part 1), cash equivalents (Schedule E - Part 2), and short-term investments (Schedule DA)			
6. Contract loans			
7. Other invested assets (Schedule BA)			
8. Receivables for securities			
9. Aggregate write-ins for invested assets			
10. Subtotals, cash and invested assets (Lines 1 to 9)			
11. Title plants (for Title insurers only)			
12. Investment income due and accrued		29,474	29,474
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	3,521,187	4,150,852	629,665
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	(97,758)	227,501	325,259
13.3 Accrued retrospective premiums	125,016	36,325	(88,691)
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers			
14.2 Funds held by or deposited with reinsured companies			
14.3 Other amounts receivable under reinsurance contracts			
15. Amounts receivable relating to uninsured plans			
16.1 Current federal and foreign income tax recoverable and interest thereon			
16.2 Net deferred tax asset	16,963,100	34,154,857	17,191,757
17. Guaranty funds receivable or on deposit			
18. Electronic data processing equipment and software			
19. Furniture and equipment, including health care delivery assets			
20. Net adjustment in assets and liabilities due to foreign exchange rates			
21. Receivables from parent, subsidiaries and affiliates			
22. Health care and other amounts receivable			
23. Aggregate write-ins for other than invested assets	1,387,047	64,714	(1,322,333)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	21,898,592	38,663,723	16,765,131
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	21,898,592	38,663,723	16,765,131

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)			
2301. Other Assets	1,387,047	64,714	(1,322,333)
2302.			
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page			
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	1,387,047	64,714	(1,322,333)

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 uses the following accounting policies:

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 1 C(7).
4. Preferred stocks are carried at cost or fair value as specified by the SVO Manual.
5. Mortgage loans are reported at unpaid principal balances, less impairments as specified by the SVO Manual.
6. Mortgage backed/asset backed securities are stated 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. The Company carries its investments in SCA companies in accordance with SSAP No. 97, Investment in Subsidiaries, Controlled Entities and Affiliates, and the SVO Manual. Schedule D Part 6-Section 1 illustrates the valuation method used for each SCA company.
8. The Company does not own any joint ventures, partnerships, and limited liability companies.
9. Derivative Securities, refer to Note 8.
10. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 53, *Property Casualty Contracts - Premiums*.
11. Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods, for making such estimates and for establishing the resulting liability, are continually reviewed and follow current standards of practice. Any adjustments to the liability are reflected in the period that they are determined.
12. The Company did not change its capitalization policy in 2009.
13. The Company has no pharmaceutical rebate receivables.

Note 2- Accounting Changes and Correction of Errors

- A. Effective December 31, 2009, the Company elected to admit Deferred Tax Assets (DTA's) pursuant to SSAP No. 10R, Income Taxes-Revised, a temporary replacement of SSAP No. 10. The change in DTA's resulting from adopting SSAP No. 10R, is disclosed as an aggregate write-in for gains and losses in surplus under the caption SSAP 10R incremental change. (Refer to Note 9.A)

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

Not applicable

Note 4- Discontinued Operations

The Company has no discontinued operations to report.

Note 5- Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans

During 2009, the company participated in direct investment in commercial mortgage loans using an experienced external manager, StanCorp Mortgage Investors.

- (1) The maximum and minimum lending rates for mortgage loans during 2009 were 10.25% and 5.24% respectively.
- (2) During 2009, the company did not reduce interest rates of any outstanding mortgage loans.
- (3) The maximum loan to value of any loan written during 2009 was 75%.
- (4) No loans had interest more than 180 days past due.
- (5) There were \$98 in taxes, assessments and any amounts advanced and not included in the mortgage loan.
- (6) There was no recorded investment in impaired loans as of December 31, 2009.
- (7) There was no recorded investment in impaired loans without a related allowance for credit losses.
- (8) There was no average recorded investment in impaired loans for 2009.
- (9) There was no interest income recognized for impaired loans during 2009.
- (10) There was no interest income recognized on a cash basis for impaired loans during 2009.
- (11)
 - a) There was no allowance for credit losses in 2009 or 2008.
 - b) There were no additions charged to operations.
 - c) There were no direct write-downs charged against the allowance.
 - d) There were no recoveries of amounts previously charged off.
 - e) The balance in the allowance for credit losses was \$0 in 2009 and \$0 in 2008.

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

B. Troubled Debt Restructuring for Creditors

- (1) There was no recorded investment in loans for which impairment has been recognized.
- (2) There was no realized capital loss.
- (3) There were no commitments to lend additional funds to debtors owing receivables whose terms have been modified in trouble debt restructuring.
- (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.

D. Loan-Backed Securities

1. Not used.
2. Prepayment speed assumptions are updated monthly with data sourced from the Bloomberg data service.
3. Not used.
4. All Loaned Backed Securities with a recognized other-than-temporary impairment disclosed in the aggregate during 2009 as of December 31, 2009:

NOTES TO FINANCIAL STATEMENTS

	1 Amortized Cost Basis Before Other-than-Temporary Impairment	2 Other-than-Temporary Impairment Recognized in Loss	3 Fair Value (C1-C2)
Aggregate Intent to Sell			
Aggregate Intent & Ability	1,801,176	263,666	1,323,181

5. Each Loaned Backed Security with a recognized other-than-temporary impairment held by the company at December 31, 2009:

1 CUSIP	2 Book/Adj Carrying Value Amortized cost before current period OTTI	3 Projected Cash Flows	4 Recognized other-than-tempor ary impairment	5 Amortized cost after other-than-tempor ary impairment	6 Fair Value
59023XAB2	463,616	405,530	58,086	405,530	406,130
59023XAB2	554,809	480,889	73,919	480,889	383,900
61749BAB9	782,751	651,090	131,661	651,090	533,151

6. All impaired Loaned Backed Securities for which an other-than-temporary impairment has not been recognized in earnings as a realized loss as of December 31, 2009:

	1	2
	Less Than 12 Months	Greater Than 12 Months
Gross Unrealized Loss	(903,737)	(3,060,489)

7. 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' equity. 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.

8. Not used.

E. Repurchase Agreements

1. The Company did not enter into any repurchase agreements during the year.
2. The Company maintained collateral for loaned securities.
 - a) For loaned securities, Company policies require a minimum of 102% of the fair value of securities loaned to be maintained as collateral.
 - b) The Company has not pledged any of its assets as collateral.
3. Aggregate amount of contractually obligated open collateral positions for which the borrower may request the return of on demand:

	Under 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days	Total
Fair value of open reinvested collateral positions	2,317,856	2,451,011	2,012,380	956,290	7,737,537

4. Sources of collateral are cash and securities. Cash collateral is reinvested by the lending agent in short-term securities. The Company does not reinvest securities received as collateral.

F. Real Estate

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

NOTES TO FINANCIAL STATEMENTS

G. Investments in Low-Income Housing Tax Credits

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

Note 6- Joint Ventures, Partnerships & Limited Liability Companies

A. The Company has no investments in joint ventures, partnerships, or limited liability companies that exceed 10% of its admitted assets.

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

Not applicable

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 (180 days for mortgage loans).

B. Amounts Nonadmitted

No amounts were excluded as of December 31, 2009.

Note 8- Derivative Instruments

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

Note 9 - Income Taxes

A. The components of the net deferred tax assets (DTAs) and liabilities (DTLs) recognized in the Company's Assets, Liabilities,

Surplus and Other Funds are as follows:

	December 31, 2009			December 31, 2008	Change
	Ordinary	Capital	Total	Total	
Total gross DTAs	71,134,000	1,118,950	72,252,950	77,877,416	(5,624,466)
Total gross DTLs	(2,311,672)	(1,531,678)	(3,843,350)	(5,667,026)	1,823,676
Net DTA (DTL)	68,822,328	(412,728)	68,409,600	72,210,390	(3,800,790)
Net DTA non-admitted			(16,963,100)	(34,154,857)	17,191,757
Net Admitted DTA (DTL)			51,446,500	38,055,533	13,390,967

The Company has elected to admit additional DTAs pursuant to SSAP No. 10R, paragraph 10e. The current period election was not available at December 31, 2008. A statutory valuation allowance adjustment, as described in SSAP No. 10R, paragraph 6e, is not required. Accordingly, total adjusted gross DTAs equal total gross DTAs.

The increased amount, by tax character, of net admitted DTAs resulting from paragraph 10e:

Ordinary	17,896,161
Capital	0
Total increase in net admitted DTAs	17,896,161

The amount of each result or component of the calculation, by tax character, of paragraphs 10a., 10bi., 10bii., 10c.:

	December 31, 2009			December 31, 2008
	Ordinary	Capital	Total	Total
Recoverable through loss carrybacks (10a.)	9,730,000	0	9,730,000	29,702,602
Lesser of:				
Expected to be recognized within one year (10bi.)	23,820,339	0	23,820,339	8,352,931
10% of adjusted capital and surplus (10bii.)			44,366,796	31,647,049
Adj. gross DTAs offset against existing DTLs (10c.)	2,311,672	1,531,678	3,843,350	5,667,026

The amount of each result or component of the calculation, by tax character, of paragraphs 10ei., 10eii., 10eib., and 10eiii.:

	December 31, 2009		
	Ordinary	Capital	Total
Recoverable through loss carrybacks (10ei.)	9,730,000	0	9,730,000
Lesser of:			
Expected to be recognized within three years (10eii.)	41,716,500	0	41,716,500
15% of adjusted capital and surplus (10eib.)			66,550,194
Adj. gross DTAs offset against existing DTLs (10eiii.)	2,311,672	1,531,678	3,843,350

NOTES TO FINANCIAL STATEMENTS

Risk-based capital level used in paragraph 10d:	December 31, 2009
Total adjusted capital	490,734,505
Authorized control level	53,179,828

The following amounts result from the calculation in paragraphs 10a., 10b., and 10c.:

	December 31, 2009
Admitted DTA	33,550,339
Admitted asset	1,528,223,656
Statutory surplus	490,734,505
Total adjust capital	490,734,505

Admitted DTAs, admitted assets and statutory surplus increased by \$17,896,161 resulting from the use of paragraph 10e.

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

	2009	2008
Federal	13,760,528	8,355,046
Foreign		
Realized capital gains	(1,024,828)	(4,877,722)
Federal and foreign income taxes incurred	12,735,700	3,477,324

The Company's DTAs and DTLs result primarily from goodwill, 20% adjustment to unearned premiums, discounting of unpaid losses and LAE, postretirement benefit obligations, accretion of market discount on owned securities, allowance for doubtful accounts, severance, nonadmitted assets and unrealized gains and losses.

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

	2009
Change in net deferred income tax (without unrealized gain or loss)	405,165
Change in tax effect of unrealized (gains) losses	(4,205,954)
Total change in net deferred income tax	(3,800,790)

- D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest and goodwill.
- E. The amount of Federal income taxes incurred and available for recoupment in the event of future losses is \$10,703,700 from the current year and none from the preceding year.

At December 31, 2009, the Company did not have any unused net operating loss carryforwards available to offset against future net income.

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

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

Access Insurance Services, Co.	Liberty Insurance Holdings, Inc.
AMBCO Capital Corporation	Liberty Insurance Underwriters, Inc.
America First Insurance Company	Liberty International Europe Inc.*
America First Lloyds Insurance Company	Liberty International Holdings Inc.
American Ambassador Casualty Company (merged 10/21/2009)	Liberty Life Assurance Company of Boston
American Economy Insurance Company	Liberty Life Holdings, Inc.
American Fire & Casualty Company	Liberty Lloyds of Texas Insurance Company
American States Insurance Company	Liberty Management Services, Inc.
American States Insurance Company of Texas	Liberty Mexico Holdings, Inc.
American States Lloyds Insurance Company	Liberty Mutual Fire Insurance Company
American States Preferred Insurance Company	Liberty Mutual Group Inc.
Avomark Insurance Company	Liberty Mutual Holding Company Inc.
Barrier Ridge LLC	Liberty Mutual Insurance Company
Berkeley Holding Company Associates, Inc.	Liberty Mutual Personal Insurance Company
Berkeley Management Corporation	Liberty Northwest Insurance Corporation
Bridgefield Casualty Insurance Company	Liberty Personal Insurance Company
Bridgefield Employers Insurance Company	Liberty RE (Bermuda) Limited
Capitol Court Corporation	Liberty Sponsored Insurance (Vermont) Inc.
Capitol Agency, Inc., The (Arizona corporation)	Liberty Surplus Insurance Corporation
Capitol Agency, Inc., The (Ohio corporation)	LIH U.S. P&C Corporation
Capitol Agency, Inc., The (Tennessee corporation)	LIH-RE of America Corporation
Cascade Disability Management, Inc.	LIU Specialty Insurance Agency Inc.
Colorado Casualty Insurance Company	LM General Insurance Company
Commercial Aviation Insurance, Inc.	LM Insurance Corporation
	LM Personal Insurance Company

NOTES TO FINANCIAL STATEMENTS

Companies Agency of New York, Inc.	LM Property & Casualty Insurance Company
Companies Agency of Pennsylvania, Inc.	LMHC Massachusetts Holdings Inc.
Consolidated Insurance Company	LRE Properties, Inc.
Copley Venture Capital, Inc.	Mid-American Agency, Inc.
Diversified Settlements, Inc.	Mid-American Fire & Casualty Company
Emerald City Insurance Agency, Inc.	North Pacific Insurance Company
Employers Insurance Company of Wausau	OCASCO Budget, Inc.
Excelsior Insurance Company	OCI Printing, Inc.
F.B. Beattie & Company, Inc.	Ohio Casualty Corporation
First National Insurance Company of America	Ohio Casualty of New Jersey, Inc. (merged 9/30/2009)
First State Agency Inc.	Ohio Security Insurance Company
Florida State Agency, Inc.	Open Seas Solutions, Inc.
General America Corporation	Oregon Automobile Insurance Company
General America Corporation of Texas	Peerless Indemnity Insurance Company
General Insurance Company of America	Peerless Insurance Company
Globe American Casualty Company (merged 12/30/2009)	Pilot Insurance Services, Inc.
Golden Eagle Insurance Corporation	Rianoc Research Corporation
Gulf States AIF, Inc.	S.C. Bellevue, Inc.
Hawkeye-Security Insurance Company	Safecare Company, Inc.
Heritage-Summit HealthCare, Inc.	Safeco Corporation
Indiana Insurance Company	Safeco General Agency, Inc.
Insurance Company of Illinois	Safeco Insurance Company of America
LEXCO Limited	Safeco Insurance Company of Illinois
Liberty - USA Corporation	Safeco Insurance Company of Indiana
Liberty Assignment Corporation	Safeco Insurance Company of Oregon
Liberty Energy Canada, Inc.	Safeco Lloyds Insurance Company
Liberty Financial Services, Inc.	Safeco National Insurance Company
Liberty Hospitality Group, Inc.	Safeco Properties, Inc.
Liberty Insurance Company of America (merged 9/17/2009)	Safeco Surplus Lines Insurance Company
Liberty Insurance Corporation	San Diego Insurance Company
SCIT, Inc.	The Ohio Casualty Insurance Company
St. James Insurance Company Ltd.	The Ohio Life Brokerage Services, Inc.
State Agency, Inc. (Indiana corporation)	Wausau Business Insurance Company
State Agency, Inc. (Wisconsin corporation)	Wausau General Insurance Company
Summit Consulting, Inc.	Wausau Service Corporation
Summit Consulting, Inc. of Louisiana	(dissolved 10/21/2009)
Summit Holding Southeast, Inc.	Wausau Underwriters Insurance Company
The First Liberty Insurance Corporation	West American Insurance Company
The Midwestern Indemnity Company	Winmar Company, Inc.
The National Corporation	Winmar of the Desert, Inc.
The Netherlands Insurance Company	Winmar Oregon, Inc.
	Winmar-Metro, Inc

* This company joined the consolidated group in 2009 and its activity from the date it joined the group is included in the consolidated return.

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

Note 10- Information concerning Parent, Subsidiaries and Affiliates

- A. All of the outstanding shares of capital stock of the Company are held by Safeco Corporation (“Safeco”), a company incorporated in Washington. Safeco is wholly owned by LIH US P&C Corporation, an insurance holding company incorporated in Delaware. LIH US P&C Corporation is wholly owned by Liberty Insurance Holdings, Inc., an insurance holding company incorporated in Delaware. Liberty Insurance Holdings, Inc. is owned by Liberty Mutual Insurance Company (“LMIC” 93%), a Massachusetts insurance company; Liberty Mutual Fire Insurance Company (“LMFIC” 4%), a Wisconsin insurance company; and Employers Insurance Company of Wausau (“EICOW” 3%), a Wisconsin insurance company. The ultimate parent of LMIC, LMFIC and EICOW is Liberty Mutual Holding Company Inc., a Massachusetts company.
- B. Transactions between the Company and its affiliates are described in Schedule Y Part 2.
- C. As of December 31, 2009, the Company had the following capital transactions with its parent and subsidiaries:

Received capital contributions of \$118,168,469 from its parent, Safeco Corporation.
- D. At December 31, 2009, the Company reported \$1,673,186 due to affiliates. In general, the terms of the inter-company arrangements require settlement at least quarterly.
- E. The Company has made no guarantee or initiated an undertaking for the benefit of affiliates which result in a material contingent exposure of the Company’s or affiliates’ assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

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

The Company is a party to a services agreement (the "Agreement") with Peerless Insurance Company ("PIC") and other affiliates. 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 with LMIC, an investment management agreement with Liberty Mutual Investment Advisors ("LMIA") and a cash management agreement with LMIA. Under these agreements, LMIA and LMIC provide services to the Company.

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

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

- G. The Company is part of a holding company structure as illustrated in Schedule Y Part 1.
- H. The Company does not own shares of any upstream intermediate or ultimate parent, either directly or indirectly via a downstream subsidiary, controlled or affiliated company.
- I. The Company has no investments in SCA companies greater than 10% of its admitted assets.
- J. The Company did not recognize any impairment write down for its SCA companies during the statement period.
- K. The Company does not hold investments in foreign subsidiaries.
- L. Investments in downstream non-insurance holding companies

Refer to 10 I

Note 11- Debt

- A. Not applicable
- B. The Company has not entered into Federal Home Loan Bank Agreements.

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

As a result of the acquisition of the Company's parent, Safeco Corporation, by Liberty Mutual on September 22, 2008, the Company's eligible U.S. employees became employees of Liberty Mutual and began participating in non contributory defined benefit pension plans and contributory defined contribution pension plans sponsored by LMGI, effective January 1, 2009. The Safeco 401(k) plan assets merged into the Liberty Mutual Employees' Thrift-Incentive plan in May of 2009.

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

The Safeco Corporation continues to sponsor a cash balance defined benefit pension plan (CBP) covering a wide range of former Company employees. Safeco Corporation terminated the CBP effective December 31, 2008 and will distribute plan assets to eligible participants as soon as administratively practicable. The distribution of assets is expected to occur within 2 to 3 years after the November 2008 filing of a request for approval of the plan termination with applicable regulators. The CBP pension costs are subject to the inter-company pooling agreement described in Note 25. These costs amounted to \$79,856 and \$33,824 in 2009 and 2008, respectively. Also, a CBP additional minimum liability of \$277,985 and \$547,199, also subject to the inter-company pooling agreement, was recognized in 2009 and 2008 respectively in accordance with SSAP 89 and is reported as a component of unassigned funds (surplus). The Company has no legal obligation for benefits under this plan.

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

1. Common Stock

The Company has 1,000,000 shares authorized, issued and outstanding as of December 31, 2009. All shares have a stated par value of \$5.

2. Preferred Stock

Not applicable

3. Dividend Restrictions

Not applicable

NOTES TO FINANCIAL STATEMENTS

4. The Company paid ordinary dividends to its parent in 2009 of:
December: \$7,200,000
5. The maximum amount of dividends which can be paid by Indiana-domiciled insurance companies to shareholders without the prior approval of the Insurance Commissioner is the greater of (a) 10% of surplus or (b) net income, subject to the availability of accumulated undistributed earnings. The maximum dividend payout which may be made without prior approval in 2010 is \$62,275,671.
6. As of December 31, 2009, the Company has restricted surplus of \$17,896,161, from recording the increase in admitted adjusted gross DTA's as a result of applying the revised guidance in SSAP No. 10R (refer to Note 2A) and pre-tax restricted surplus of \$1,116,417 resulting from retroactive reinsurance contracts.
7. The Company had no advances to surplus.
8. The Company did not hold stock for special purposes.
9. The Company had changes in special surplus funds resulting from prior year's retroactive reinsurance contracts during 2009 and from the adoption of the revised guidance on calculating admitted adjusted gross DTA's in SSAP 10R.
10. The portion of unassigned funds (surplus) represented by cumulative unrealized gain is \$21,137,488 after applicable deferred taxes of \$(1,531,678).
11. Surplus Notes
Not applicable
12. Quasi re-organization (dollar impact)
Not applicable
13. Quasi re-organization (effective date)
Not applicable

Note 14- Contingencies

A. Contingent Commitments

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

B. Assessments

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

The Company has accrued a liability for guaranty funds and other assessments of \$4,465,265 that is offset by future premium tax credits of \$745,846. This represents management's best estimate based on information received from the states in which the Company writes business and may change due to factors including the Company's share of the ultimate cost of current insolvencies.

Current assessments are expected to be paid out in the next five years, while premium tax offsets are expected to be realized in the next eleven years, beginning in 2009.

During 2009 there were no material insolvencies to report. The company continues to remit payments relating to prior year insolvencies.

C. Gain Contingencies

Not applicable

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

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

	Direct
Claims related ECO and bad faith losses paid during the reporting period	\$735,000

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

E. All other Contingencies

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

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

Note 15- Leases

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

The Company has entered into sale-leaseback arrangements with unrelated parties on certain property, plant and equipment. The transactions have been accounted for in accordance with SSAP No. 22. The Company has a purchase option for all PP&E at the end of each respective lease. The Company's minimum lease obligations under these agreements are as follows:

<u>Year(s)</u>	<u>Sale Lease-back</u>	<u>All Other Operating Lease Arrangements</u>
2010	\$317,663	\$2,774,105
2011	317,663	2,757,808
2012	317,663	2,429,297
2013	317,663	896,003
2014	26,472	760,904
2015 & thereafter	0	1,800,421
Total	\$1,297,124	\$11,418,538

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

Not applicable

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

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

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

A. The Company did not sell premium receivables.

B. Transfers and servicing of financial assets:

The Company participates in a Securities Lending Program to generate additional income, whereby certain fixed income 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 Company can exercise discretion as to how the collateral is invested. The loaned securities remain a recorded asset of the Company.

At December 31, 2009 the total fair value of securities on loan was \$7,903,019 with corresponding collateral value of \$8,276,682 of which \$7,737,537 represents cash collateral.

C. Wash Sales

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

NOTES TO FINANCIAL STATEMENTS

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

A. Administrative Services Only (ASO) Plans

Not applicable

B. Administrative Services Contract (ASC) Plans

In 2008, the Company's affiliate, Safeco Insurance Company of America and other members of the Peerless Amended and Restated Reinsurance Pooling Agreement (refer to note 25) 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 a third party administrator 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 2009, the Company recorded CEA administrative fees of \$58,240.

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts

Not applicable

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

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

Note 20- Other Items

A. The Company has no extraordinary items to report.

B. Troubled Debt Restructuring for Debtors

Not applicable

C. Other Disclosures

1) Assets in the amount of \$45,778,411 and \$45,516,000 as of December 31, 2009 and 2008, respectively, were on deposit with government authorities or trustees as required by law.

2) During the current year, certain members of the Peerless Pool, of which the Company is a member, changed the nature of their cash disbursement accounts, so that disbursement transactions reflect the characteristics of drafts. In prior years, cash disbursement transactions were accounted for as checks. The Company's cash accounts were not changed. The Company's year end drafts payable balance increased by \$ 16,674,844, which represents the Company's pool share of the Peerless Pool's increase in drafts outstanding. (Refer to Note 25)

3) Interrogatory 6.1

In 2009, as a member of an inter-company reinsurance pooling arrangement, the Company had the benefit of Workers' Compensation Catastrophe reinsurance with limits of \$1,038,000 part of \$1,175,000 xs \$25,000,000 purchased by Peerless Insurance Company, the lead company of the inter-company reinsurance pool, individually or with affiliates within the Liberty Mutual Group covering workers' compensation business ceded to the pool.

Interrogatory 6.3

As a member of the inter-company pooling arrangement in which Peerless Insurance Company is the lead company, the Company has the benefit of \$825,000,000 xs \$500,000,000 of traditional XOL reinsurance covering its business ceded to the pool. In December 2008, Peerless Insurance Company purchased a 31.725% QS treaty for its direct and assumed from affiliates US Homeowners portfolio, which includes business assumed from the Company.

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

E. Business Interruption Insurance Recoveries

The Company does not purchase business interruption coverage.

F. State Transferable Tax Credits

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

NOTES TO FINANCIAL STATEMENTS

<u>Description of State Transferable Tax Credits</u>	<u>State</u>	<u>Carrying Value</u>	<u>Unused Amount</u>
Historical Rehabilitation Credit	CT	32,000	32,000
Total		32,000	32,000

(2) Method of Estimating Utilization of Remaining Transferable State Tax Credits

The Company estimated the utilization of the remaining 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 State Tax Credits

(3) Impairment Loss

The Company has not recognized any impairment losses associate with its Transferable State Tax Credits

G. Sub-Prime Lending

- 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 past acquisitions of insurance companies.
- The Company does not have any direct exposure through investments in sub-prime mortgage loans.
- The Company has direct exposure through their investment in residential mortgage-backed securities.

<u>Actual Cost</u>	<u>Book Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Other Than Temporary Impairments Recognized</u>
\$1,706,912	\$1,708,016	\$1,605,284	\$263,666

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

Note 21- Events Subsequent

- A. The Company evaluated subsequent events through February 24, 2010, the date the financial statements were available to be issued.

There were no events subsequent to December 31, 2009 that would require disclosure.

Note 22- Reinsurance

- A. Excluding amounts arising pursuant to the inter-company Reinsurance Agreement, as described in Note 25, there are no unsecured reinsurance recoverables with an individual reinsurer which exceed 3% of policyholder's surplus.
- B. There are no reinsurance recoverables in dispute from an individual reinsurer which exceed 5% of the Company's surplus. In addition, the aggregate reinsurance recoverables in dispute do not exceed 10% of the Company's surplus.
- C. Reinsurance Assumed & Ceded

- The following table sets forth the maximum return premium and commission equity due the reinsurer or the Company if all of the Company's assumed and ceded reinsurance were canceled as of December 31, 2009.

	<u>Assumed Reinsurance</u>		<u>Ceded Reinsurance</u>		<u>Net Reinsurance</u>	
	UEP	Commission Equity	UEP	Commission Equity	UEP	Commission Equity
Affiliates	257,663,511	36,072,891	159,732,236	22,362,513	97,931,275	13,710,378
All Other	-	-	-	-	-	-
Total	257,663,511	36,072,891	159,732,236	22,362,513	97,931,275	13,710,378

Direct Unearned Premium Reserve of 159,732,236

NOTES TO FINANCIAL STATEMENTS

2. There are no sliding scale adjustments, or other profit sharing commissions for direct, assumed or ceded business. The following are the contingent commissions for direct, assumed and ceded business.

Direct	\$0
Assumed	14,390,687
Ceded	0
Net	\$14,390,687

3. The Company does not use protected cells as an alternative to traditional reinsurance.
- D. The Company did not write off any uncollectible balances in 2009.
- E. The Company does not have any ceded commutations.
- F. The Company has one assumed retroactive contract that transferred liabilities for losses that had already occurred. The impact of the Inter-Company Reinsurance Agreement is also shown.

		Assumed	Ceded
a.	Reserves Transferred:		
	1. Initial Reserves	26,589,730	
	2. Adjustment – Prior Year(s)	(20,712,593)	
	3. Adjustment – Current Year	(833,304)	
	4. Total	5,043,834	
b.	Consideration Paid or Received:		
	1. Initial Reserves	28,880,453	
	2. Adjustment – Prior Year(s)	834,004	
	3. Adjustment – Current Year	-	
	4. Total	29,714,458	
c.	Amounts Recovered / Paid - Cumulative		
	1. Initial Reserves	0	
	2. Adjustment – Prior Year(s)	447,953,930	
	3. Adjustment – Current Year	14,942,083	
	4. Total	462,896,013	
d.	Special Surplus from Retroactive Reinsurance		
	1. Initial Reserves	0	
	2. Adjustment – Prior Year(s)	(67,040,960)	
	3. Adjustment – Current Year	2,011,436	
	4. Total	1,116,417	
	5. Cumulative Total Transferred to Unassigned Funds	(65,029,524)	
e.	Other insurers included in the above transactions:		
	Peerless Insurance Company	5,043,834	

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

- G. The Company has not entered into deposit type reinsurance agreements as of December 31, 2009.

Note 23 - Retrospectively Rated Contracts and Contracts Subject to Redetermination

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

a. Total accrued retro premium	\$1,039,479
b. Less: Non-admitted amount	125,016
c. Admitted amount	\$914,463

NOTES TO FINANCIAL STATEMENTS

Note 24 - Changes in Incurred Losses and Loss Adjustment Expenses

Incurred loss and loss adjustment expense attributed to insured events on prior years has decreased \$42,085,260 during 2009. This decrease was primarily the result of improving loss trends in the Other Liability \$16,865,810, Private Passenger Auto Liability \$8,736,625, Commercial Multi-Peril \$6,540,497, Workers' Compensation \$3,944,092, Fidelity/Surety \$3,240,924 and Commercial Auto Liability \$2,298,436 lines. Prior estimates are revised as additional information becomes known regarding individual claims.

Note 25- 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	2009 Pooling Percentage
Lead Company	Peerless Insurance Company ("PIC")	24198	25.20%
Affiliated Pool Companies	The Ohio Casualty Insurance Company ("OCIC")	24074	20.40%
	Safeco Insurance Company of America ("SICOA")	24740	15.20%
	General Insurance Company of America ("GICA")	24732	9.20%
	American States Insurance Company ("ASIC")	19704	7.60%
	American Economy Insurance Company ("AEIC")	19690	5.60%
	Indiana Insurance Company ("IIC")	22659	4.80%
	Golden Eagle Insurance Corporation ("GEIC")	10836	3.00%
	Peerless Indemnity Insurance Company ("PIIC")	18333	3.00%
	Safeco Insurance Company of Illinois ("SICIL")	39012	2.00%
	The Netherlands Insurance Company ("NIC")	24171	1.80%
	American States Preferred Insurance Company ("ASPCO")	37214	0.80%
	First National Insurance Company of America ("FNICA")	24724	0.80%
	American Fire and Casualty Company ("AFCIC")	24066	0.60%
	America First Insurance Company ("AFIC")	12696	0.00%
	America First Lloyd's Insurance Company ("AFLIC")	11526	0.00%
	American States Insurance Company of Texas ("ASICT")	19712	0.00%
	American States Lloyds Insurance Company ("ASLCO")	31933	0.00%
	Avomark Insurance Company ("AVOIC")	10792	0.00%
	Colorado Casualty Insurance Company ("CCIC")	41785	0.00%
	Consolidated Insurance Company ("CIC")	22640	0.00%
	Excelsior Insurance Company ("EIC")	11045	0.00%
	Hawkeye-Security Insurance Company ("HSIC")	36919	0.00%
	Insurance Company of Illinois ("ICIL")	26700	0.00%
	Liberty Mutual Mid-Atlantic Insurance Company ("LMMAIC")	14486	0.00%
	Mid-American Fire & Casualty Company ("MAFCC")	23507	0.00%
	The Midwestern Indemnity Company ("MWIC")	23515	0.00%
	Montgomery Mutual Insurance Company ("MMIC")	14613	0.00%
	National Insurance Association ("NIA")	27944	0.00%
	Ohio Security Insurance Company ("OSIC")	24082	0.00%
	Safeco Insurance Company of Indiana ("SICIN")	11215	0.00%
	Safeco Insurance Company of Oregon ("SICOR")	11071	0.00%
	Safeco Lloyds Insurance Company ("SLICO")	11070	0.00%
	Safeco National Insurance Company ("SNIC")	24759	0.00%
	Safeco Surplus Lines Insurance Company ("SSLIC")	11100	0.00%
	West American Insurance Company ("WAIC")	44393	0.00%
			100.00%
100% Quota Share	Bridgefield Employers Insurance Company ("BEIC")	10701	0.00%
	Bridgefield Casualty Insurance Company ("BCIC")	10335	0.00%
Affiliated Companies	Liberty Northwest Insurance Corporation ("LNW")	41939	0.00%
	North Pacific Insurance Company ("NPIC")	23892	0.00%
	Oregon Automobile Insurance Company ("OAIC")	23922	0.00%

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

- (a) Each Affiliated Pool Company cedes its net underwriting activity to the Lead Company.
- (b) Each 100% Quota Share Affiliated Company cedes its net underwriting activity to the Lead Company.
- (c) After recording the assumed affiliate transactions noted above, the Lead Company records 100% of its external assumed and ceded reinsurance activity.
- (d) The Lead Company's remaining underwriting activity, after processing all internal and external reinsurance is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above.

NOTES TO FINANCIAL STATEMENTS

- (e) There were no members that are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement that have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.
- (f) There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the Lead Company and corresponding entries on the assumed and ceded reinsurance schedules of other pooled participants.
- (g) The write-off of uncollectible reinsurance is pooled and the Provision for Reinsurance is recognized by the entity placing the outbound external reinsurance.
- (h) Amount due from affiliated entity participating in the Peerless inter-company pool as at December 31, 2009:

Affiliate:	Amount:
Peerless Insurance Company	\$26,766,274

During 2009, American Ambassador Insurance Company, Globe American Insurance Company and Ohio Casualty of New Jersey merged with Peerless Indemnity Insurance Company, The Midwestern Indemnity Company, and Ohio Casualty Insurance Company, respectively. Peerless Indemnity Insurance Company, The Midwestern Indemnity Company and Ohio Casualty Insurance Company were the surviving entities.

During 2009, ICIL merged with an affiliate, Liberty Insurance Company of America (LICA). ICIL became the surviving entity. Concurrent with the merger, ICIL entered into a Quota Share Reinsurance Agreement with Liberty Mutual Insurance Company (LMIC), covering the business written by LICA. ICIL continued as a participant in the Peerless Amended and Restated Reinsurance Agreement. Effective January 1, 2010, ICIL terminated the Quota Share Reinsurance Agreement with LMIC and became a participant in the Liberty Mutual inter-company Pool, with a 0.00% participation in the Pool. As a participant in the Liberty Mutual inter-company Reinsurance Agreement, ICIL cedes the business of LICA to the Pool. Concurrent with entering into the Liberty Mutual inter-company Reinsurance Agreement, ICIL terminated its participation in the Peerless Amended and Restated Reinsurance Agreement and entered into a Quota Share Reinsurance Agreement with PIC, covering the business written by ICIL.

Effective January 1, 2010, Bridgefield Casualty Insurance Company and Bridgefield Employers Insurance Company canceled their 100% Quota Share Reinsurance Agreements with PIC and entered into 100% Reinsurance Agreements with Liberty Mutual Insurance Company.

Pursuant to the approval of the appropriate state insurance departments, effective January 1, 2010, the Peerless Insurance Company Pool structure was revised as follows:

		NAIC Company Number	2010 Pooling Percentage
Lead Company	Peerless Insurance Company ("PIC")	24198	25.20%
Affiliated Pool Companies	The Ohio Casualty Insurance Company ("OCIC")	24074	20.40%
	Safeco Insurance Company of America ("SICOA")	24740	15.20%
	General Insurance Company of America ("GICA")	24732	9.20%
	American States Insurance Company ("ASIC")	19704	7.60%
	American Economy Insurance Company ("AEIC")	19690	5.60%
	Indiana Insurance Company ("IIC")	22659	4.80%
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	Safeco Insurance Company of Illinois ("SICIL")	39012	2.00%
	The Netherlands Insurance Company ("NIC")	24171	1.80%
	American States Preferred Insurance Company ("ASPCO")	37214	0.80%
	First National Insurance Company of America ("FNICA")	24724	0.80%
	American Fire and Casualty Company ("AFCIC")	24066	0.60%
	America First Insurance Company ("AFIC")	12696	0.00%
	America First Lloyd's Insurance Company ("AFLIC")	11526	0.00%
	American States Insurance Company of Texas ("ASICT")	19712	0.00%
	American States Lloyds Insurance Company ("ASLCO")	31933	0.00%
	Avomark Insurance Company ("AVOIC")	10792	0.00%
	Colorado Casualty Insurance Company ("CCIC")	41785	0.00%
	Consolidated Insurance Company ("CIC")	22640	0.00%
	Excelsior Insurance Company ("EIC")	11045	0.00%
	Hawkeye-Security Insurance Company ("HSIC")	36919	0.00%
	Liberty Mutual Mid-Atlantic Insurance Company ("LMMAIC")	14486	0.00%
	Mid-American Fire & Casualty Company ("MAFCC")	23507	0.00%
	The Midwestern Indemnity Company ("MWIC")	23515	0.00%
	Montgomery Mutual Insurance Company ("MMIC")	14613	0.00%
	National Insurance Association ("NIA")	27944	0.00%
	Ohio Security Insurance Company ("OSIC")	24082	0.00%
	Safeco Insurance Company of Indiana ("SICIN")	11215	0.00%
	Safeco Insurance Company of Oregon ("SICOR")	11071	0.00%
	Safeco Lloyds Insurance Company ("SLICO")	11070	0.00%

NOTES TO FINANCIAL STATEMENTS

	Safeco National Insurance Company ("SNIC")	24759	0.00%
	Safeco Surplus Lines Insurance Company ("SSLIC")	11100	0.00%
	West American Insurance Company ("WAIC")	44393	0.00%
			100.00%
100% Quota	Liberty Northwest Insurance Corporation ("LNW")	41939	0.00%
Share	North Pacific Insurance Company ("NPIC")	23892	0.00%
Affiliated	Oregon Automobile Insurance Company ("OAIC")	23922	0.00%
Companies			

Note 26- Structured Settlements

- A. As a result of purchased annuities with the claimant as payee, the Company no longer carries reserves of \$6,555,232 after applying 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 \$6,555,232 as of December 31, 2009.
- B. Not applicable

Note 27 - Health Care Receivables

Not applicable

Note 28 - Participating Policies

Not applicable

Note 29 – Premium Deficiency Reserves

As of December 31, 2009, the Company had no liabilities related to premium deficiency reserves.

Note 30- High Dollar Deductible Policies

The Company does not have any high deductible policies.

Note 31- Discounting of Liabilities for Unpaid Losses and Unpaid Loss Adjustment Expenses

For Workers Compensation, the Company discounts its reserves for unpaid losses using a tabular discount on the long-term annuity portion of certain workers compensation claims. The tabular discount is based on the Unit Statistical Plan tables as approved by the respective states at an annual discount rate of 4.0%. The December 31, 2009 liabilities subject to discount were carried at a value representing a discount of \$8,426,697, net of all reinsurance.

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

Note 32 - Asbestos/Environmental Reserves

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

Factors Contributing to Uncertainty in Establishing Adequate Reserves

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

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

In the last few years the Company, as well as the industry generally, has seen decreases in the number of asbestos claims being filed. This turn to a more favorable trend is due to a number of factors. Screening activity used by some lawyers to find new plaintiffs has been as a result of questionable practices discovered in the Federal Silica Multi District Litigation. Court decisions in several key states have been favorable to defendants. More importantly, several states have enacted

NOTES TO FINANCIAL STATEMENTS

legislation in the past few years that contain medical criteria provisions aimed at reducing the number of lawsuits filed by unimpaired plaintiffs and providing prompt and fair compensation to those who meet the criteria.

Uncertainty Regarding Reserving Methodologies

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

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

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

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

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

Asbestos:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct Basis					
Beginning Reserves	6,689,756	8,305,689	9,602,925	9,059,318	9,373,412
Incurring losses and LAE	2,286,459	1,975,975	524,504	1,381,258	119,710
Calendar year payments	670,526	678,739	956,110	1,067,164	723,514
Ending Reserves	<u>8,305,689</u>	<u>9,602,925</u>	<u>9,171,319</u>	<u>9,373,412</u>	<u>8,769,608</u>
Assumed Reinsurance Basis					
Beginning Reserves	6,053,536	6,113,748	6,030,807	7,448,312	6,375,701
Incurring losses and LAE	412,218	264,161	1,716,139	(253,085)	3,151,648
Calendar year payments	352,006	347,102	577,787	819,526	645,293
Ending Reserves	<u>6,113,748</u>	<u>6,030,807</u>	<u>7,169,159</u>	<u>6,375,701</u>	<u>8,882,056</u>
Net of Ceded Reinsurance Basis					
Beginning Reserves	10,397,958	11,874,116	12,629,295	13,375,982	12,831,685
Incurring losses and LAE	2,450,312	1,686,937	1,852,871	674,364	3,558,408
Calendar year payments	974,154	931,758	1,277,100	1,218,661	1,280,936
Ending Reserves	<u>11,874,116</u>	<u>12,629,295</u>	<u>13,205,066</u>	<u>12,831,685</u>	<u>15,109,157</u>
Ending Reserves for Bulk + IBNR included above (Loss & LAE)					
Direct Basis					4,971,164
Assumed Reinsurance Basis					4,999,104
Net of Ceded Reinsurance Basis					9,196,875
Ending Reserves for LAE included above (Case, Bulk & IBNR)					
Direct Basis					2,995,359
Assumed Reinsurance Basis					16,287
Net of Ceded Reinsurance Basis					2,525,841

NOTES TO FINANCIAL STATEMENTS

Environmental:	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct Basis					
Beginning Reserves	10,065,116	11,240,497	10,951,297	10,412,279	8,895,423
Incurred losses and LAE	2,461,217	1,034,083	2,881,251	229,257	(386,128)
Calendar year payments	1,285,836	1,323,283	2,082,128	1,746,113	931,870
Ending Reserves	11,240,497	10,951,297	11,750,420	8,895,423	7,577,425
Assumed Reinsurance Basis					
Beginning Reserves	3,119,480	2,278,534	2,056,866	1,999,169	1,922,341
Incurred losses and LAE	(695,934)	45,325	30,043	112	(489,929)
Calendar year payments	145,012	266,993	52,450	76,940	48,665
Ending Reserves	2,278,534	2,056,866	2,034,459	1,922,341	1,383,747
Net of Ceded Reinsurance Basis					
Beginning Reserves	12,452,325	12,302,769	11,455,464	11,454,884	9,769,437
Incurred losses and LAE	1,063,684	613,829	3,179,007	(201,701)	(1,032,370)
Calendar year payments	1,213,240	1,461,134	1,766,778	1,483,746	921,721
Ending Reserves	12,302,769	11,455,464	12,867,693	9,769,437	7,815,346
Ending Reserves for Bulk + IBNR included above (Loss & LAE)					
Direct Basis					5,039,440
Assumed Reinsurance Basis					871,547
Net of Ceded Reinsurance Basis					5,157,596
Ending Reserves for LAE included above (Case, Bulk & IBNR)					
Direct Basis					2,574,036
Assumed Reinsurance Basis					6,233
Net of Ceded Reinsurance Basis					2,508,070

Upon entering the PIC Pool, effective January 1, 2008 (refer to Note 25), the Ohio Casualty Companies' asbestos and environmental claims coding was revised to reflect the definition employed by the Peerless "Pool", which is consistent with industry practice. As a result, the 2007 ending balances for asbestos and environmental reserves, which is the sum of the former PIC Pool's amounts and the Ohio Casualty Companies' Pool amounts, differ from the 2008 beginning balances, which reflect a single common definition.

Note 33- Subscriber Savings Accounts

The Company is not a reciprocal insurance company.

Note 34 - Multiple Peril Crop Insurance

Not applicable

Note 35 – Financial Guarantee Insurance Contracts

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 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 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
- 2.2 If yes, date of change: _____ 01/01/2009 _____
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. _____ 12/31/2005 _____
- 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. _____ 12/31/2005 _____
- 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). _____ 06/18/2007 _____
- 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
- 3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes No N/A
- 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
- 4.12 renewals? Yes No
- 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
- 4.22 renewals? Yes No
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes No
- 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
.....	00000
.....	00000
.....	00000

- 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

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.

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 Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

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

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?

Ernst & Young, LLP
 200 Clarendon Street
 Boston, MA 02116

10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?

William M Finn, FCAS, MAAA
 62 Maple Avenue Keene, NH 03431
 Vice President & Chief Actuary of Liberty Mutual Agency Markets

11.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly?

Yes [] No [X]

11.11 Name of real estate holding company

11.12 Number of parcels involved

0

11.13 Total book/adjusted carrying value

\$ _____ 0

11.2 If yes, provide explanation:

.....

GENERAL INTERROGATORIES

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

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

.....

12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

Yes No

12.3 Have there been any changes made to any of the trust indentures during the year?

Yes No

12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes?

Yes No N/A

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

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

Yes No

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

.....

13.2 Has the code of ethics for senior managers been amended?

Yes No

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

Safeco companies changed from Safeco Code of Conduct to Liberty Mutual Group Code of Conduct as of 1/1/2009

.....

13.3 Have any provisions of the code of ethics been waived for any of the specified officers?

Yes No

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

.....

BOARD OF DIRECTORS

14. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof?

Yes No

15. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof?

Yes No

16. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person?

Yes No

FINANCIAL

17. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)?

Yes No

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

18.11 To directors or other officers	\$	0
18.12 To stockholders not officers	\$	0
18.13 Trustees, supreme or grand (Fraternal only)	\$	0

GENERAL INTERROGATORIES

- 18.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):
- | | | |
|--|---|-------------|
| | 18.21 To directors or other officers | \$ <u>0</u> |
| | 18.22 To stockholders not officers | \$ <u>0</u> |
| | 18.23 Trustees, supreme or grand (Fraternal only) | \$ <u>0</u> |
- 19.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes No
- 19.2 If yes, state the amount thereof at December 31 of the current year:
- | | | |
|--|----------------------------|-------------|
| | 19.21 Rented from others | \$ <u>0</u> |
| | 19.22 Borrowed from others | \$ <u>0</u> |
| | 19.23 Leased from others | \$ <u>0</u> |
| | 19.24 Other | \$ <u>0</u> |
- 20.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes No
- 20.2 If answer is yes:
- | | | |
|--|--|-------------|
| | 20.21 Amount paid as losses or risk adjustment | \$ <u>0</u> |
| | 20.22 Amount paid as expenses | \$ <u>0</u> |
| | 20.23 Other amounts paid | \$ <u>0</u> |
- 21.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes No
- 21.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ 0

INVESTMENT

- 22.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 22.3) Yes No
- 22.2 If no, give full and complete information relating thereto:

- 22.3 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 16 where this information is also provided)
 Please reference note 17B.

- 22.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes No N/A
- 22.5 If answer to 22.4 is yes, report amount of collateral. \$ 8,276,682
- 22.6 If answer to 22.4 is no, report amount of collateral. \$ 0
- 23.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 19.1 and 22.3.) Yes No
- 23.2 If yes, state the amount thereof at December 31 of the current year:
- | | | |
|--|--|----------------------|
| | 23.21 Subject to repurchase agreements | \$ <u>0</u> |
| | 23.22 Subject to reverse repurchase agreements | \$ <u>0</u> |
| | 23.23 Subject to dollar repurchase agreements | \$ <u>0</u> |
| | 23.24 Subject to reverse dollar repurchase agreements | \$ <u>0</u> |
| | 23.25 Pledged as collateral | \$ <u>0</u> |
| | 23.26 Placed under option agreements | \$ <u>0</u> |
| | 23.27 Letter stock or securities restricted as to sale | \$ <u>0</u> |
| | 23.28 On deposit with state or other regulatory body | \$ <u>45,778,411</u> |
| | 23.29 Other | \$ <u>0</u> |

GENERAL INTERROGATORIES

23.3 For category (23.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount
.....	0
.....	0
.....	0

24.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes No

24.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes No N/A
 If no, attach a description with this statement.

25.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes No

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

26. 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 3, III Conducting Examinations, F – Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook? Yes No

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

1 Name of Custodian(s)	2 Custodian's Address
.....
.....

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

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

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

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

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason
The Bank of New York Mellon	JP Morgan Chase	01/02/2009	Transfer to Liberty Mutual Custodian
.....

26.05 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(s)	3 Address
N/A	Liberty Mutual Investment Advisors, LL	175 Berkeley Street, Boston, MA 02116
N/A	Liberty Mutual Insurance Company	175 Berkeley Street, Boston, MA 02116
N/A	Stancorp Mortgage Investors	1100 SW Sixth Avenue Portland, OR 97204

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

GENERAL INTERROGATORIES

27.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
.....	0
.....	0
.....	0
27.2999 TOTAL		0

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

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation
.....	0
.....	0
.....	0

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

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
28.1 Bonds	1,193,684,458	1,214,671,517	20,987,059
28.2 Preferred stocks	28,935,150	28,935,150	0
28.3 Totals	1,222,619,608	1,243,606,667	20,987,059

28.4 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. Lastly, management determines fair value based on quoted market prices of similar financial instruments or by using industry recognized valuation techniques.

29.1 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]

29.2 If 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 [X]

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

The Company reviews the pricing methodology of its vendors on an annual basis. The Company has also established acceptable price change and tolerance guidelines. Vendor prices falling outside the guidelines are furthered reviewed by management on a monthly basis. All prices determined internally by the insurer are reviewed and signed off by the Chief Investment Officer.

30.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

Yes [X] No []

30.2 If no, list exceptions:

.....

OTHER

31.1 Amount of payments to Trade associations, service organizations and statistical or Rating Bureaus, if any?

\$ _____ 0

GENERAL INTERROGATORIES

31.2 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

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

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

1 Name	2 Amount Paid
	0
	0
	0

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

33.2 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

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [] No [X]

1.2 If yes, indicate premium earned on U.S. business only. \$ 0

1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$ 0

1.31 Reason for excluding

.....

.....

.....

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

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

1.6 Individual policies:

Most current three years:

1.61 Total premium earned \$ 0

1.62 Total incurred claims \$ 0

1.63 Number of covered lives 0

All years prior to most current three years:

1.64 Total premium earned \$ 0

1.65 Total incurred claims \$ 0

1.66 Number of covered lives 0

1.7 Group policies:

Most current three years:

1.71 Total premium earned \$ 0

1.72 Total incurred claims \$ 0

1.73 Number of covered lives 0

All years prior to most current three years:

1.74 Total premium earned \$ 0

1.75 Total incurred claims \$ 0

1.76 Number of covered lives 0

2. Health Test:

	1	2
	Current Year	Prior Year
2.1 Premium Numerator	\$ <u>397,589</u>	\$ <u>0</u>
2.2 Premium Denominator	\$ <u>586,685,671</u>	\$ <u>774,160,269</u>
2.3 Premium Ratio (2.1/2.2)	<u>0.00</u>	<u>0.00</u>
2.4 Reserve Numerator	\$ <u>435,388</u>	\$ <u>2,104,813</u>
2.5 Reserve Denominator	\$ <u>943,348,483</u>	\$ <u>706,673,285</u>
2.6 Reserve Ratio (2.4/2.5)	<u>0.00</u>	<u>0.00</u>

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 \$ 84,395

3.22 Non-participating policies \$ 324,473,746

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 20C

.....

.....

.....

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:
 The Company employs industry recognized catastrophe modeling software to estimate the Probable Maximum Loss. For property exposures, we employ RiskLink v9.0 from RMS and AIR Clasic/2 v11.0. For WC, Liberty Mutual utilizes RiskLink v9.0 from RMS.
- 6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss?
 See Note 20C
- 6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? Yes No
- 6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to uninsured catastrophic loss
- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes No
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions. _____ 1
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes No
- 8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? Yes No
- 8.2 If yes, give full information
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
 (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
 (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 (c) Aggregate stop loss reinsurance coverage;
 (d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
 (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes No
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:
 (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract. Yes No
- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
 (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
 (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
 (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 32 of SSAP No. 62, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
 (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
 (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? Yes No
- 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
 (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
 (c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement. Yes No

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 No N/A
- 11.1 Has the reporting entity guaranteed policies issued by any other entity and now in force: Yes No
- 11.2 If yes, give full information

- 12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 13.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- | | | | |
|---|--|----|------------------|
| 12.11 Unpaid losses | | \$ | <u>2,820,237</u> |
| 12.12 Unpaid underwriting expenses (including loss adjustment expenses) | | \$ | <u>313,338</u> |
- 12.2 Of the amount on Line 13.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? \$ 870,455
- 12.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium notes or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? Yes No 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 | | _____ | <u>9.00</u> |
- 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 or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? Yes No
- 12.6 If yes, state the amount thereof at December 31 of current year:
- | | | | |
|----------------------------------|--|----|-------------------|
| 12.61 Letters of Credit | | \$ | <u>2,119,395</u> |
| 12.62 Collateral and other funds | | \$ | <u>20,154,145</u> |
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ 24,084,925
- 13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? Yes No
- 13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. 1
- 14.1 Is the company a cedant in a multiple cedant reinsurance contract? Yes No
- 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:

- 15.1 Has the reporting entity guaranteed any financed premium accounts? Yes No
- 15.2 If yes, give full information

- 16.1 Does the reporting entity write any warranty business? Yes No
 If yes, disclose the following information for each of the following types of warranty coverage:
- | | 1 | 2 | 3 | 4 | 5 |
|------------------|---------------------------|-------------------------|---------------------------|----------------------------|--------------------------|
| | Direct Losses
Incurred | Direct Losses
Unpaid | Direct Written
Premium | Direct Premium
Unearned | Direct Premium
Earned |
| 16.11 Home | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| 16.12 Products | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| 16.13 Automobile | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| 16.14 Other* | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

* Disclose type of coverage: _____

GENERAL INTERROGATORIES

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	\$ <u> 0</u>
17.12 Unfunded portion of Interrogatory 17.11	\$ <u> 0</u>
17.13 Paid losses and loss adjustment expenses portion of Interrogatory 17.11	\$ <u> 0</u>
17.14 Case reserves portion of Interrogatory 17.11	\$ <u> 0</u>
17.15 Incurred but not reported portion of Interrogatory 17.11	\$ <u> 0</u>
17.16 Unearned premium portion of Interrogatory 17.11	\$ <u> 0</u>
17.17 Contingent commission portion of Interrogatory 17.11	\$ <u> 0</u>

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

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

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 administered 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	2	3	4	5
	2009	2008	2007	2006	2005
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)	332,500,572	394,970,745	429,844,796	426,353,654	433,709,063
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	113,156,000	210,796,889	220,383,079	225,299,029	243,989,962
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	414,300,152	474,783,174	513,612,001	498,360,950	507,189,410
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	31,312,118	63,282,456	54,846,029	46,148,527	39,413,362
5. Nonproportional reinsurance lines (Lines 31, 32 & 33)	6	1,494	154	196	2,004
6. Total (Line 35)	891,268,848	1,143,834,758	1,218,686,059	1,196,162,356	1,224,303,801
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)	263,590,913	311,601,546	338,393,068	340,078,216	349,948,056
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	96,481,947	189,051,399	196,561,714	202,555,069	221,610,321
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	175,461,076	183,947,163	202,298,091	197,404,331	203,203,483
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	31,176,766	63,131,763	54,607,233	45,893,680	39,192,651
11. Nonproportional reinsurance lines (Lines 31, 32 & 33)	6	1,494	154	196	2,004
12. Total (Line 35)	566,710,708	747,733,365	791,860,260	785,931,492	813,956,515
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	24,641,393	20,621,541	50,847,554	91,026,526	74,279,669
14. Net investment gain (loss) (Line 11)	54,905,121	49,634,935	66,272,024	63,598,472	66,021,774
15. Total other income (Line 15)	(1,000,114)	1,257,861	2,485,590	(34,792)	1,207,319
16. Dividends to policyholders (Line 17)	2,510,199	930,371	664,240	929,600	398,944
17. Federal and foreign income taxes incurred (Line 19)	13,760,528	8,355,046	21,028,924	32,571,361	35,906,520
18. Net income (Line 20)	62,275,673	62,228,920	97,912,004	121,089,245	105,203,298
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	1,546,119,817	1,438,460,340	1,525,338,883	1,634,750,860	1,643,255,880
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	22,186,815	69,671,737	95,385,921	86,151,091	73,364,932
20.2 Deferred and not yet due (Line 13.2)	157,537,260	117,162,078	103,485,496	115,085,056	134,033,555
20.3 Accrued retrospective premiums (Line 13.3)	914,463	326,924	285,225	337,851	335,779
21. Total liabilities excluding protected cell business (Page 3, Line 24)	1,037,489,151	1,129,311,330	1,125,004,856	1,105,961,426	1,140,753,327
22. Losses (Page 3, Line 1)	526,416,697	542,818,524	534,861,501	528,305,485	551,706,622
23. Loss adjustment expenses (Page 3, Line 3)	125,330,551	126,537,370	127,344,417	134,887,461	135,679,697
24. Unearned premiums (Page 3, Line 9)	257,663,511	282,825,872	309,075,031	299,890,987	301,682,953
25. Capital paid up (Page 3, Lines 28 & 29)	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
26. Surplus as regards policyholders (Page 3, Line 35)	508,630,666	309,149,010	400,334,027	528,789,434	502,502,553
Cash Flow (Page 5)					
27. Net cash from operations (Line 11)	(27,884,070)	60,737,162	104,313,556	124,205,670	98,392,540
Risk-Based Capital Analysis					
28. Total adjusted capital	508,630,666	309,149,010	400,334,027	528,789,434	502,502,553
29. Authorized control level risk-based capital	53,190,943	64,309,664	69,011,838	68,136,040	68,237,087
Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
30. Bonds (Line 1)	90.1	85.3	82.3	85.6	89.9
31. Stocks (Lines 2.1 & 2.2)	4.7	4.9	15.5	14.3	10.1
32. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.8				
33. Real estate (Lines 4.1, 4.2 & 4.3)					
34. Cash, cash equivalents and short-term investments (Line 5)	4.4	9.8	2.2	0.0	0.0
35. Contract loans (Line 6)					
36. Other invested assets (Line 7)			0.0	0.0	
37. Receivables for securities (Line 8)		0.0	0.0	0.0	0.0
38. Aggregate write-ins for invested assets (Line 9)					
39. Cash, cash equivalents and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
40. Affiliated bonds, (Sch. D, Summary, Line 12, Col. 1)					
41. Affiliated preferred stocks (Sch. D, Summary, Line 18, Col. 1)					
42. Affiliated common stocks (Sch. D, Summary, Line 24, Col. 1)	22,292,911	21,443,102	20,390,000	19,499,000	18,830,000
43. Affiliated short-term investments (subtotals included in Schedule DA Verification, Col. 5, Line 10)					
44. Affiliated mortgage loans on real estate					
45. All other affiliated					
46. Total of above Lines 40 to 45	22,292,911	21,443,102	20,390,000	19,499,000	18,830,000
47. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 46 above divided by Page 3, Col. 1, Line 35 x 100.0)	4.4	6.9	5.1	3.7	3.7

FIVE – YEAR HISTORICAL DATA

(Continued)

	1	2	3	4	5
	2009	2008	2007	2006	2005
Capital and Surplus Accounts (Page 4)					
48. Net unrealized capital gains (losses) (Line 24)	8,660,867	(31,019,580)	3,531,864	8,568,010	152,987
49. Dividends to stockholders (Line 35)	(7,200,000)	(107,000,000)	(230,000,000)	(105,000,000)	(100,000,000)
50. Change in surplus as regards policyholders for the year (Line 38)	199,481,657	(91,185,018)	(128,455,407)	26,286,881	11,219,611
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
51. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3)	169,620,389	223,057,047	247,240,908	234,375,368	231,438,686
52. Property lines (Lines 1, 2, 9, 12, 21 & 26)	73,967,460	118,786,260	120,152,576	124,279,776	125,501,751
53. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	257,642,083	305,288,115	233,742,938	238,371,586	233,468,225
54. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	4,247,266	3,221,631	(356,777)	3,749,510	9,598,103
55. Nonproportional reinsurance lines (Lines 31, 32 & 33)	17,313,736	2,957,848	1,943,449	(70,579)	1,482,694
56. Total (Line 35)	522,790,934	653,310,901	602,723,094	600,705,661	601,489,459
Net Losses Paid (Page 9, Part 2, Col. 4)					
57. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3)	138,920,821	178,794,687	204,802,544	186,582,220	184,446,037
58. Property lines (Lines 1, 2, 9, 12, 21 & 26)	66,541,304	107,519,503	109,017,276	114,125,460	116,437,205
59. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	86,907,266	122,493,601	94,014,082	89,660,946	88,137,865
60. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	4,270,810	3,193,579	(438,537)	3,646,039	9,593,839
61. Nonproportional reinsurance lines (Lines 31, 32 & 33)	17,300,068	2,957,848	1,943,449	(70,579)	1,482,694
62. Total (Line 35)	313,940,269	414,959,218	409,338,814	393,944,086	400,097,640
Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
63. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
64. Losses incurred (Line 2)	50.7	55.5	53.1	47.1	49.7
65. Loss expenses incurred (Line 3)	11.9	11.5	9.7	11.4	12.7
66. Other underwriting expenses incurred (Line 4)	33.2	30.3	30.7	30.0	28.6
67. Net underwriting gain (loss) (Line 8)	4.2	2.7	6.5	11.6	9.1
Other Percentages					
68. 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)	34.6	31.2	30.0	30.0	28.4
69. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	62.6	67.0	62.9	58.5	62.3
70. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 35 divided by Page 3, Line 35, Col. 1 x 100.0)	111.4	241.9	197.8	148.6	162.0
One Year Loss Development (000 omitted)					
71. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2-Summary, Line 12, Col. 11)	(43,196)	(21,805)	(20,569)	(19,528)	(14,306)
72. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 71 above divided by Page 4, Line 21, Col. 1 x 100.0)	(14.0)	(5.4)	(3.9)	(3.9)	(2.9)
Two Year Loss Development (000 omitted)					
73. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2-Summary, Line 12, Col. 12)	(62,244)	(31,290)	(43,138)	(17,892)	(18,188)
74. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 73 above divided by Page 4, Line 21, Col. 2 x 100.0)	(15.5)	(5.9)	(8.6)	(3.6)	(4.6)

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 Number of Claims Reported - Direct and Assumed
	1 Direct and Assumed	2 Ceded	3 Net (Cols. 1-2)	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10 Salvage and Subrogation Received	11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
				4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded			
1. Prior	X X X	X X X	X X X	6,506	2,460	2,035	169	595	31	234	6,476	X X X
2. 2000	480,243	29,343	450,900	329,613	20,781	22,459	1,483	36,080	1,058	17,451	364,830	X X X
3. 2001	482,785	29,151	453,634	307,509	20,804	22,264	1,156	37,177	1,146	16,581	343,844	X X X
4. 2002	529,283	50,190	479,093	288,879	27,662	21,022	1,922	36,569	1,760	16,501	315,126	X X X
5. 2003	580,144	46,552	533,592	281,554	23,384	19,214	1,374	41,135	1,868	16,558	315,277	X X X
6. 2004	630,568	33,095	597,473	288,354	11,137	17,472	619	41,039	833	20,840	334,276	X X X
7. 2005	664,467	25,310	639,157	291,617	11,090	17,885	642	42,643	606	19,179	339,807	X X X
8. 2006	669,898	27,871	642,027	281,903	5,996	15,310	759	42,267	893	16,308	331,832	X X X
9. 2007	676,673	31,108	645,565	269,367	5,592	11,966	653	41,197	539	15,661	315,746	X X X
10. 2008	668,249	23,634	644,615	273,207	7,581	8,173	329	44,594	386	13,463	317,678	X X X
11. 2009	623,986	37,301	586,685	161,977	11,256	2,710	511	31,789	182	7,132	184,527	X X X
12. Totals	X X X	X X X	X X X	2,780,486	147,743	160,510	9,617	395,085	9,302	159,908	3,169,419	X X X

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding Direct and Assumed
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		Other Unpaid				
	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			
1. Prior	58,936	16,969	33,611	4,022	2,603	247	8,521	848	5,463	160	1,142	86,888	X X X
2. 2000	7,750	2,241	3,238	783	78	40	1,153	131	683	52	116	9,655	X X X
3. 2001	8,070	2,201	3,739	771	159	34	1,338	96	880	45	292	11,039	X X X
4. 2002	8,460	1,532	4,142	747	174	7	1,588	101	768	16	213	12,729	X X X
5. 2003	6,835	928	5,449	801	211	2	1,995	96	860	4	487	13,519	X X X
6. 2004	9,327	1,653	6,829	938	269	2	2,482	120	1,103	1	1,185	17,296	X X X
7. 2005	14,967	1,239	9,750	1,309	498	2	3,684	192	1,849	1	771	28,005	X X X
8. 2006	25,992	1,918	14,290	1,903	857	2	6,039	283	2,886	2	2,090	45,956	X X X
9. 2007	44,563	1,864	22,534	2,662	1,380	3	10,398	422	4,693	3	2,013	78,614	X X X
10. 2008	63,118	1,547	47,195	6,127	1,661	6	16,502	809	8,020	6	4,756	128,001	X X X
11. 2009	90,995	3,733	94,741	2,226	1,151	14	20,349	248	19,034	2	13,909	220,047	X X X
12. Totals	339,013	35,825	245,518	22,289	9,041	359	74,049	3,346	46,239	292	26,974	651,749	X X X

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1. Prior	X X X	X X X	X X X	X X X	X X X	X X X			X X X	71,556	15,332
2. 2000	401,054	26,569	374,485	83.511	90.546	83.053			5.600	7,964	1,691
3. 2001	381,136	26,253	354,883	78.945	90.059	78.231			5.600	8,837	2,202
4. 2002	361,602	33,747	327,855	68.319	67.238	68.432			5.600	10,323	2,406
5. 2003	357,253	28,457	328,796	61.580	61.129	61.619			5.600	10,555	2,964
6. 2004	366,875	15,303	351,572	58.182	46.240	58.843			5.600	13,565	3,731
7. 2005	382,893	15,081	367,812	57.624	59.585	57.546			5.600	22,169	5,836
8. 2006	389,544	11,756	377,788	58.150	42.180	58.843			5.600	36,461	9,495
9. 2007	406,098	11,738	394,360	60.014	37.733	61.088			5.600	62,571	16,043
10. 2008	462,470	16,791	445,679	69.206	71.046	69.139			5.600	102,639	25,362
11. 2009	422,746	18,172	404,574	67.749	48.717	68.959			5.600	179,777	40,270
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	526,417	125,332

Note: Parts 2 and 4 are gross of all discounting, including tabular discounting. Part 1 is gross of only nontabular discounting, which is reported in Columns 32 and 33 of Part 1. The tabular discount, if any, is reported in the Notes to Financial Statements, which will reconcile Part 1 with Parts 2 and 4.

SCHEDULE P – PART 2 – SUMMARY

Years in Which Losses Were Incurred	Incurred Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										DEVELOPMENT		
	1	2	3	4	5	6	7	8	9	10	11	12	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	One Year	Two Year	
1. Prior	265,522	276,598	285,430	297,904	300,929	310,193	315,134	318,474	318,684	329,207	10,523	10,733	
2. 2000	318,318	330,015	333,472	339,198	338,805	339,584	339,215	339,501	337,913	339,374	1,461	(127)	
3. 2001	X X X	316,132	314,580	316,705	318,017	318,618	316,876	318,397	316,290	318,518	2,228	121	
4. 2002	X X X	X X X	306,314	304,224	301,390	295,073	294,581	292,418	291,163	292,742	1,579	324	
5. 2003	X X X	X X X	X X X	305,530	299,249	291,834	290,560	292,155	289,905	289,082	(823)	(3,073)	
6. 2004	X X X	X X X	X X X	X X X	347,493	336,717	331,686	317,414	314,371	310,752	(3,619)	(6,662)	
7. 2005	X X X	X X X	X X X	X X X	X X X	364,331	350,885	332,168	328,294	324,361	(3,933)	(7,807)	
8. 2006	X X X	X X X	X X X	X X X	X X X	X X X	363,172	352,526	341,475	334,058	(7,417)	(18,468)	
9. 2007	X X X	X X X	X X X	X X X	X X X	X X X	X X X	386,789	373,211	349,504	(23,707)	(37,285)	
10. 2008	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	413,447	393,959	(19,488)	X X X	
11. 2009	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	354,246	X X X	X X X	
											12. Totals	(43,196)	(62,244)

SCHEDULE P – PART 3 – SUMMARY

Years in Which Losses Were Incurred	Cumulative Paid Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										11	12
	1	2	3	4	5	6	7	8	9	10	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009		
1. Prior	000	79,614	133,450	166,912	188,262	204,201	217,548	227,854	237,946	243,858	X X X	X X X
2. 2000	163,545	238,751	274,356	297,917	311,406	319,712	323,794	326,582	328,299	329,808	X X X	X X X
3. 2001	X X X	156,726	226,338	258,641	279,515	291,227	298,204	302,349	305,795	307,813	X X X	X X X
4. 2002	X X X	X X X	137,004	202,440	234,018	256,007	267,281	273,959	278,057	280,316	X X X	X X X
5. 2003	X X X	X X X	X X X	139,443	202,151	233,106	252,986	266,394	272,362	276,010	X X X	X X X
6. 2004	X X X	X X X	X X X	X X X	145,431	219,583	254,859	275,775	287,983	294,069	X X X	X X X
7. 2005	X X X	X X X	X X X	X X X	X X X	150,367	224,244	260,179	283,223	297,770	X X X	X X X
8. 2006	X X X	X X X	X X X	X X X	X X X	X X X	153,223	229,930	263,671	290,458	X X X	X X X
9. 2007	X X X	X X X	X X X	X X X	X X X	X X X	X X X	158,500	238,113	275,087	X X X	X X X
10. 2008	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	182,542	273,470	X X X	X X X
11. 2009	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	152,919	X X X	X X X

SCHEDULE P – PART 4 – SUMMARY

Years in Which Losses Were Incurred	Bulk and IBNR Reserves On Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)									
	1	2	3	4	5	6	7	8	9	10
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Prior	104,161	76,463	62,473	59,096	46,603	42,632	38,707	34,606	37,632	41,025
2. 2000	65,585	31,924	19,408	14,236	10,256	8,075	7,447	5,692	3,836	4,019
3. 2001	X X X	74,907	35,816	20,387	15,040	10,485	9,165	6,046	5,379	4,711
4. 2002	X X X	X X X	95,758	48,831	28,287	16,702	12,004	7,859	5,936	5,331
5. 2003	X X X	X X X	X X X	88,878	44,357	25,690	18,006	13,178	9,972	6,956
6. 2004	X X X	X X X	X X X	X X X	113,243	56,587	37,650	21,366	15,347	8,742
7. 2005	X X X	X X X	X X X	X X X	X X X	125,554	63,243	34,008	20,973	12,366
8. 2006	X X X	X X X	X X X	X X X	X X X	X X X	113,281	60,075	36,492	18,672
9. 2007	X X X	X X X	X X X	X X X	X X X	X X X	X X X	121,590	62,896	30,341
10. 2008	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	128,486	57,265
11. 2009	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	112,928

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		4	5	6	7	8	9
			2	3						
1. Alabama	AL	L	6,760,229	7,199,618		2,356,992	2,029,788	3,949,894	85,675	
2. Alaska	AK	L	108,613	94,785		67,451	13,788	60,745	1,377	
3. Arizona	AZ	L	2,562,978	3,303,522		1,093,811	1,430,191	2,605,877	32,482	
4. Arkansas	AR	L	1,024,924	1,300,718		2,348,151	1,862,104	631,287	12,989	
5. California	CA	L	78,389,758	80,430,872		37,646,209	37,517,412	55,416,096	993,463	
6. Colorado	CO	L	5,328,183	6,161,362		3,065,366	2,693,406	3,471,473	67,526	
7. Connecticut	CT	L	8,131,295	9,300,792		3,988,989	2,738,349	12,676,818	103,051	
8. Delaware	DE	L	13,404	11,002			(799)	2,417	170	
9. District of Columbia	DC	L	244,945	298,088		7,987	(16,414)	45,571	3,104	
10. Florida	FL	L	30,515,546	30,833,573		7,637,939	7,144,647	17,292,590	386,735	
11. Georgia	GA	L	8,501,229	9,978,864		9,657,967	6,671,417	10,026,615	107,739	
12. Hawaii	HI	L								
13. Idaho	ID	L	4,035,267	4,442,172		1,370,670	1,100,763	2,612,588	51,140	
14. Illinois	IL	L	14,140,975	16,265,313		9,658,266	7,289,341	19,121,140	179,214	
15. Indiana	IN	L	2,839,908	547,896		2,676,791	1,955,159	7,613,906	35,991	
16. Iowa	IA	L	656,330	756,256		595,888	373,244	281,346	8,318	
17. Kansas	KS	L	2,530,893	2,850,448		800,727	(191,874)	1,224,850	32,075	
18. Kentucky	KY	L	1,710,642	2,074,475		1,448,262	1,452,862	2,026,161	21,680	
19. Louisiana	LA	L	5,562,228	6,420,715		4,944,419	3,928,847	3,244,651	70,492	
20. Maine	ME	L	23,336	31,241		4,137	(2,653)	5,550	296	
21. Maryland	MD	L	1,570,398	2,154,563		4,064,024	5,555,482	4,452,148	19,902	
22. Massachusetts	MA	L	1,491,457	1,876,064		2,465,628	(138,335)	3,665,367	18,902	
23. Michigan	MI	L	5,992,180	7,909,658		4,895,424	(323,290)	23,281,989	75,941	
24. Minnesota	MN	L	3,709,950	4,608,732		5,651,210	3,949,773	10,570,467	47,018	
25. Mississippi	MS	L	2,915,201	3,109,256		572,425	281,242	1,413,469	36,945	
26. Missouri	MO	L	6,551,430	7,297,600		4,313,982	1,274,919	5,943,952	83,029	
27. Montana	MT	L	5,397,761	5,594,045		2,926,121	2,283,892	3,502,381	68,408	
28. Nebraska	NE	L	552,881	587,049		169,411	(11,905)	111,956	7,007	
29. Nevada	NV	L	2,396,945	2,868,898		2,869,663	2,121,889	1,769,145	30,377	
30. New Hampshire	NH	L	388,873	476,407		70,104	(8,123)	517,488	4,928	
31. New Jersey	NJ	N	2,805	6,439			9,647	12,360	36	
32. New Mexico	NM	L	2,035,426	2,136,097		792,699	614,008	1,223,251	25,796	
33. New York	NY	L	11,572,924	12,750,484		6,106,129	5,778,875	18,606,565	146,668	
34. North Carolina	NC	L	1,209,376	1,525,782		805,604	1,000,734	1,162,755	15,327	
35. North Dakota	ND	L	737,112	806,025		324,764	41,679	178,034	9,342	
36. Ohio	OH	L	2,001,105	2,428,720		3,132,410	1,349,402	3,303,806	25,361	
37. Oklahoma	OK	L	2,386,387	2,590,557		858,481	974,975	1,049,406	30,244	
38. Oregon	OR	L	13,135,920	13,678,632		7,259,484	4,733,359	12,844,120	166,476	
39. Pennsylvania	PA	L	3,992,348	4,957,625		3,669,565	2,084,856	11,654,548	50,597	
40. Rhode Island	RI	L	362,432	447,501		271,233	227	177,150	4,593	
41. South Carolina	SC	L	3,472,060	4,143,500		3,407,784	2,460,733	3,280,369	44,003	
42. South Dakota	SD	L	1,612,853	1,548,170		771,314	608,382	1,281,155	20,440	
43. Tennessee	TN	L	3,277,302	3,928,722		1,373,158	529,689	2,128,263	41,534	
44. Texas	TX	L	30,632,733	35,721,072		40,761,081	25,715,148	32,372,045	388,220	
45. Utah	UT	L	2,576,044	2,815,783		1,331,735	1,706,472	2,444,210	32,647	
46. Vermont	VT	L	160,439	212,668		655,580	790,850	366,622	2,033	
47. Virginia	VA	L	2,691,149	3,379,470		(1,160,826)	(2,629,810)	2,255,157	34,106	
48. Washington	WA	L	35,475,233	37,524,528		27,120,818	27,450,783	33,879,442	449,591	
49. West Virginia	WV	L	907,589	1,113,519		309,397	(53,431)	436,932	11,502	
50. Wisconsin	WI	L	661,525	772,844		666,606	(778,623)	2,571,231	8,384	
51. Wyoming	WY	L	1,607,625	1,952,326		780,553	1,209,281	1,620,573	20,374	
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	CN	N								
58. Aggregate Other Alien	OT	X X X								
59. Totals	(a) 50		324,558,146	353,224,448		216,605,583	166,572,358	330,385,931	4,113,248	

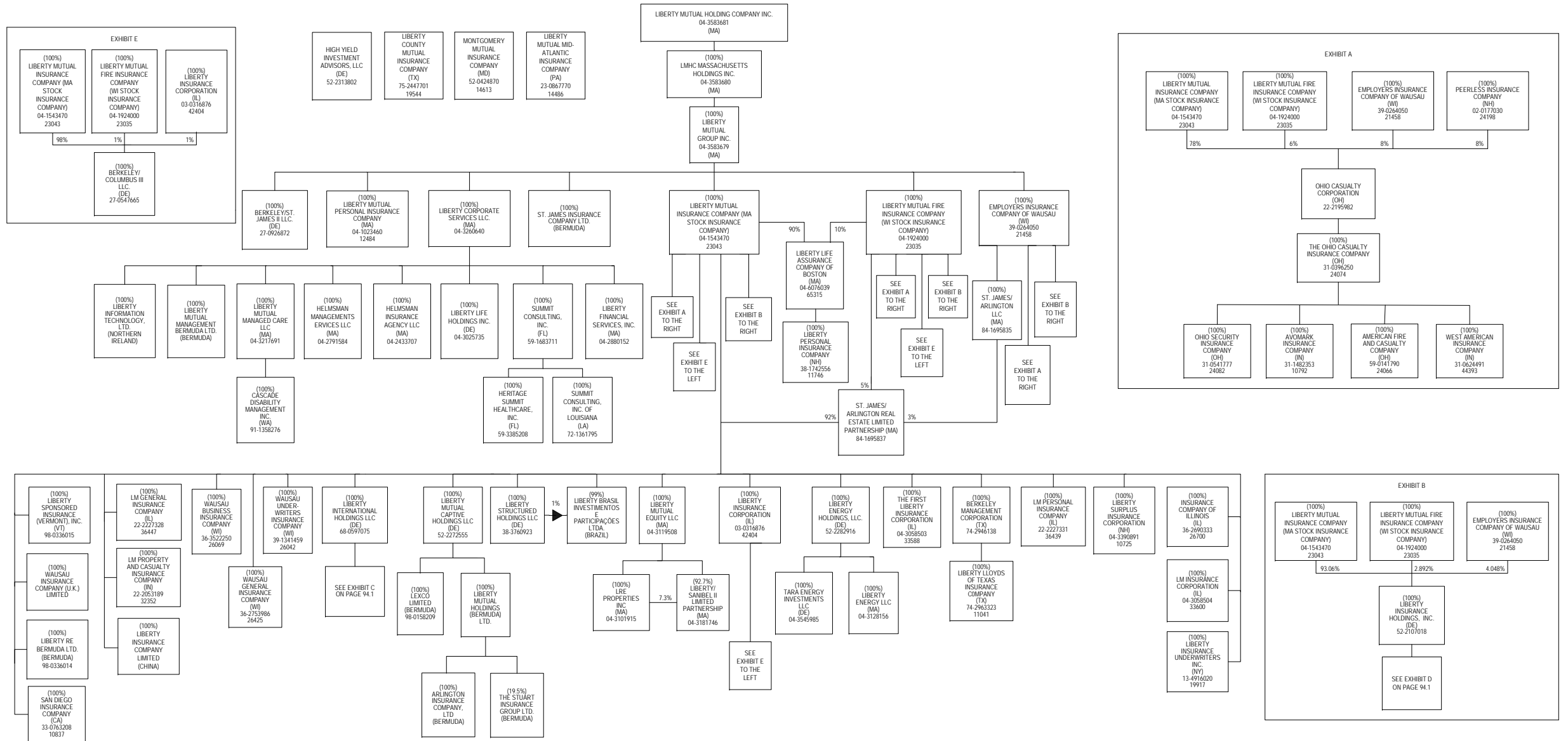
DETAILS OF WRITE-INS									
5801.		X X X							
5802.		X X X							
5803.		X X X							
5898.	Summary of remaining write-ins for Line 58 from overflow page	X X X							
5899.	Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	X X X							

Explanation of basis of allocation of premiums by states, etc.	
*Location of coverage - Fire, Allied Lines, Homeowners Multi Peril, Commercial Multi Peril, Earthquake, Boiler and Machinery	
*State of employee's main work place - Worker's Compensation	*Location of Court - 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.

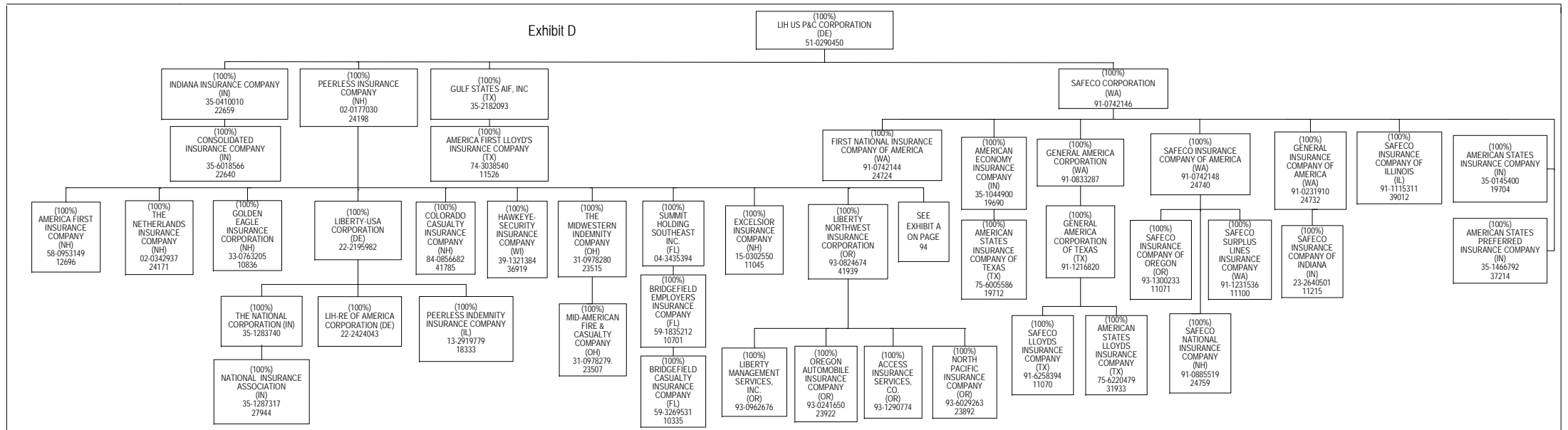
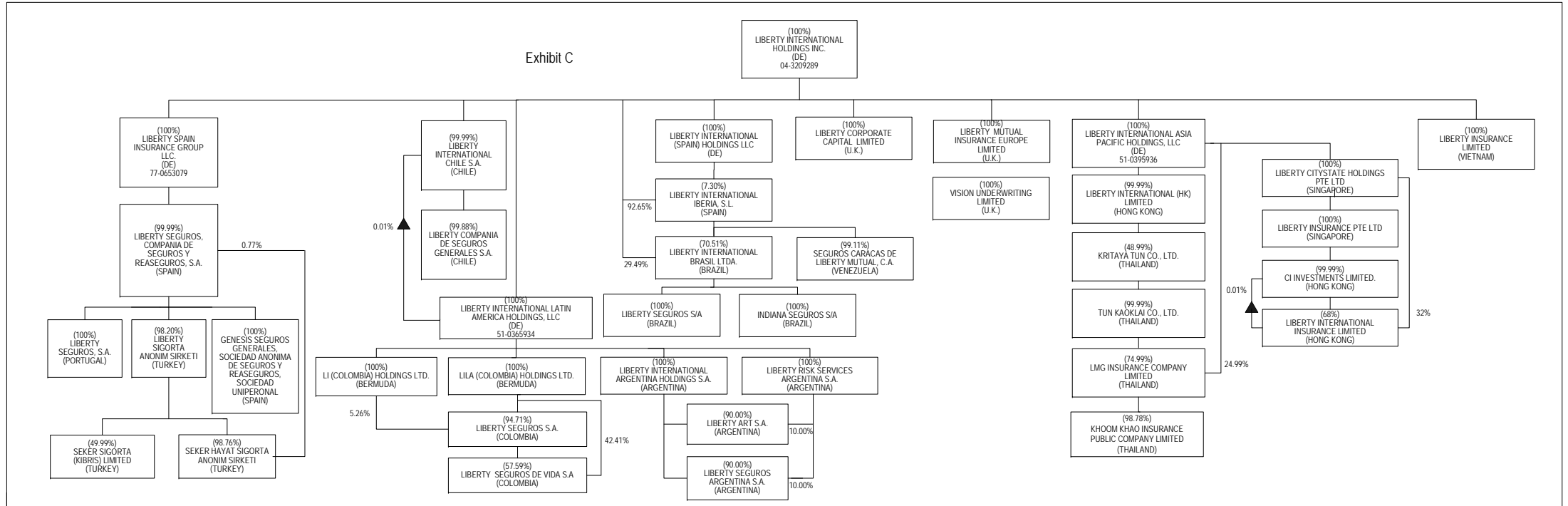
SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



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

PART 1 - ORGANIZATIONAL CHART



OVERFLOW PAGE FOR WRITE-INS

Page 3 - Continuation

	1	2
REMAINING WRITE-INS AGGREGATED AT LINE 23 FOR LIABILITIES	Current Year	Prior Year
2304. Amounts held under uninsured plans	4,060,164	277,710
2305. Accrued return retrospective premiums	694,730	
2306. Private Passenger Auto Escrow	91,528	
2397. Totals (Lines 2304 through 2396) (Page 3, Line 2398)	4,846,422	277,710

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