

**ANNUAL STATEMENT**

**OF THE**

**AMERICAN FIRE AND CASUALTY COMPANY**

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**of** **FAIRFIELD**

**in the state of** **OHIO**

**TO THE**

**Insurance Department**

**OF THE**

**FOR THE YEAR ENDED**

**December 31, 2010**

**PROPERTY AND CASUALTY**

**2010**



ANNUAL STATEMENT

For the Year Ended December 31, 2010
OF THE CONDITION AND AFFAIRS OF THE

American Fire and Casualty Company

NAIC Group Code 0111, NAIC Company Code 24066, Employer's ID Number 59-0141790, Organized under the Laws of Ohio, State of Domicile or Port of Entry Ohio, Country of Domicile United States of America, Incorporated/Organized: January 1, 1906, Commenced Business January 3, 1933, Statutory Home Office 9450 Seward Road, Fairfield, OH 45014, Main Administrative Office: 9450 Seward Road, Fairfield, OH 45014, Mail Address: 175 Berkeley Street, Boston, MA 02116, Primary Location of Books and Records: 175 Berkeley Street, Boston, MA 02116, Internet Web Site Address www.lmac.com, Statutory Statement Contact: Pamela Heenan, Statutory.Compliance@LibertyMutual.com

OFFICERS

Chairman of the Board
Gary Richard Gregg

Table with 2 columns: Name, Title. Rows include Gary Richard Gregg (President and Chief Executive Officer), Dexter Robert Legg (Secretary), Michael Joseph Fallon (Treasurer and Chief Financial Officer).

VICE-PRESIDENTS

Table with 4 columns: Name, Title, Name, Title. Rows include Anthony Alexander Fontanes (EVP and Chief Investment Officer), Scott Rhodes Goodby (EVP and Chief Operating Officer), Joseph Anthony Gilles (Executive Vice President).

DIRECTORS OR TRUSTEES

Table with 4 columns: Name, Title, Name, Title. Rows include Gary Richard Gregg, Michael Joseph Fallon, John Derek Doyle, Scott Rhodes Goodby, Christopher Charles Mansfield, Joseph Anthony Gilles.

State of Massachusetts
County of Suffolk ss

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

Signature lines for Gary Richard Gregg, Dexter Robert Legg, Michael Joseph Fallon with printed names and titles below.

Subscribed and sworn to (or affirmed) before me on this
31st day of January, 2011, by

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

## ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D)	116,414,426		116,414,426	116,775,431
2. Stocks (Schedule D):				1,223,450
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 (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 (\$ 6,762, Schedule E - Part 1), cash equivalents (\$ 0, Schedule E - Part 2), and short-term investments (\$ 7,775,896, Schedule DA)	7,782,658		7,782,658	8,931,897
6. Contract loans (including \$ 0 premium notes)				
7. Derivatives				
8. Other invested assets (Schedule BA)				
9. Receivables for securities				
10. Securities lending reinvested collateral assets	2,875,648		2,875,648	
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Lines 1 to 11)	127,072,732		127,072,732	126,930,778
13. Title plants less \$ 0 charged off (for Title insurers only)				
14. Investment income due and accrued	1,055,412		1,055,412	1,023,644
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection	2,413,713	259,846	2,153,867	2,377,159
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ (150,715) earned but unbilled premiums)	17,322,924	402	17,322,522	16,878,992
15.3 Accrued retrospective premiums	61,063	6,098	54,965	97,978
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers	10,588,803		10,588,803	7,993,544
16.2 Funds held by or deposited with reinsured companies				
16.3 Other amounts receivable under reinsurance contracts				
17. Amounts receivable relating to uninsured plans				
18.1 Current federal and foreign income tax recoverable and interest thereon	1,320,813		1,320,813	
18.2 Net deferred tax asset	3,267,180	25,138	3,242,042	3,656,700
19. Guaranty funds receivable or on deposit	101,381		101,381	111,082
20. Electronic data processing equipment and software				
21. Furniture and equipment, including health care delivery assets (\$ 0)				
22. Net adjustment in assets and liabilities due to foreign exchange rates				
23. Receivables from parent, subsidiaries and affiliates	9,580,451		9,580,451	5,810,775
24. Health care (\$ 0) and other amounts receivable				
25. Aggregate write-ins for other than invested assets	606,823	81,135	525,688	504,913
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	173,391,295	372,619	173,018,676	165,385,565
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28. Total (Lines 26 and 27)	173,391,295	372,619	173,018,676	165,385,565

DETAILS OF WRITE-IN LINES				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page				
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)				
2501. Cash Surrender Value Life insurance	348,797		348,797	340,011
2502. Equities and deposits in pools and associations	158,718		158,718	142,434
2503. Other assets	99,308	81,135	18,173	22,468
2598. Summary of remaining write-ins for Line 25 from overflow page				
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	606,823	81,135	525,688	504,913

## LIABILITIES, SURPLUS AND OTHER FUNDS

	1	2
	Current Year	Prior Year
1. Losses (Part 2A, Line 35, Column 8)	53,583,274	56,401,789
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	3,595,299	3,636,185
3. Loss adjustment expenses (Part 2A, Line 35, Column 9)	11,959,061	13,428,273
4. Commissions payable, contingent commissions and other similar charges	1,618,419	1,598,253
5. Other expenses (excluding taxes, licenses and fees)	473,665	1,897,350
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	541,243	575,163
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))		896,324
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 \$ 74,716,982 and including warranty reserves of \$ 0)	29,118,946	27,606,805
10. Advance premium	197,359	196,507
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders	5,624	50,940
12. Ceded reinsurance premiums payable (net of ceding commissions)	10,186,100	11,684,671
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	36,419	(16,892)
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	1,963,969	1,971,556
19. Payable to parent, subsidiaries and affiliates	11,479,911	1,007,818
20. Derivatives		
21. Payable for securities		
22. Payable for securities lending	2,875,648	
23. Liability for amounts held under uninsured plans		
24. Capital notes \$ 0 and interest thereon \$ 0		
25. Aggregate write-ins for liabilities	1,027,752	2,617,762
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	128,662,689	123,552,504
27. Protected cell liabilities		
28. Total liabilities (Lines 26 and 27)	128,662,689	123,552,504
29. Aggregate write-ins for special surplus funds	701,392	847,291
30. Common capital stock	3,500,001	3,374,043
31. Preferred capital stock		
32. Aggregate write-ins for other than special surplus funds		
33. Surplus notes		
34. Gross paid in and contributed surplus	13,648,270	13,648,270
35. Unassigned funds (surplus)	26,506,324	23,963,457
36. Less treasury stock, at cost:		
36.1 0 shares common (value included in Line 30 \$ 0)		
36.2 0 shares preferred (value included in Line 31 \$ 0)		
37. Surplus as regards policyholders (Lines 29 to 35, less 36) (Page 4, Line 39)	44,355,987	41,833,061
38. Totals (Page 2, Line 28, Col. 3)	173,018,676	165,385,565

DETAILS OF WRITE-IN LINES		
2501. Retroactive reinsurance reserves	572,406	540,411
2502. Other liabilities	311,315	450,593
2503. Accrued return retrospective premiums	73,045	74,435
2598. Summary of remaining write-ins for Line 25 from overflow page	70,986	1,552,323
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	1,027,752	2,617,762
2901. SSAP 10R incremental change	571,618	727,675
2902. Special surplus from retroactive reinsurance	129,774	119,616
2903.		
2998. Summary of remaining write-ins for Line 29 from overflow page		
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)	701,392	847,291
3201.		
3202.		
3203.		
3298. Summary of remaining write-ins for Line 32 from overflow page		
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)		

## STATEMENT OF INCOME

	1	2
	Current Year	Prior Year
<b>UNDERWRITING INCOME</b>		
1. Premiums earned (Part 1, Line 35, Column 4)	61,885,080	62,859,179
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 35, Column 7)	34,674,826	31,879,119
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	7,305,613	7,463,273
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	20,797,335	20,866,982
5. Aggregate write-ins for underwriting deductions	(3,385)	9,807
6. Total underwriting deductions (Lines 2 through 5)	62,774,389	60,219,181
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	(889,309)	2,639,998
<b>INVESTMENT INCOME</b>		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	4,734,346	5,530,868
10. Net realized capital gains (losses) less capital gains tax of \$ 0 (Exhibit of Capital Gains (Losses))		(116,234)
11. Net investment gain (loss) (Lines 9 + 10)	4,734,346	5,414,634
<b>OTHER INCOME</b>		
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ 3,611 amount charged off \$ 263,645)	(260,034)	(278,244)
13. Finance and service charges not included in premiums	546,079	535,920
14. Aggregate write-ins for miscellaneous income	(777,243)	(365,245)
15. Total other income (Lines 12 through 14)	(491,198)	(107,569)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	3,353,839	7,947,063
17. Dividends to policyholders	(21,146)	268,950
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)	3,374,985	7,678,113
19. Federal and foreign income taxes incurred	734,750	2,750,937
20. Net income (Line 18 minus Line 19) (to Line 22)	2,640,235	4,927,176
<b>CAPITAL AND SURPLUS ACCOUNT</b>		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	41,833,061	35,777,125
22. Net income (from Line 20)	2,640,235	4,927,176
23. Net transfers (to) from Protected Cell accounts		
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ 9,293	17,258	139,133
25. Change in net unrealized foreign exchange capital gain (loss)		
26. Change in net deferred income tax	(412,798)	780,188
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	344,811	(682,646)
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)		
29. Change in surplus notes		
30. Surplus (contributed to) withdrawn from protected cells		
31. Cumulative effect of changes in accounting principles		
32. Capital changes:		
32.1 Paid in	125,958	
32.2 Transferred from surplus (Stock Dividend)		
32.3 Transferred to surplus		
33. Surplus adjustments:		
33.1 Paid in		
33.2 Transferred to capital (Stock Dividend)		
33.3 Transferred from capital		
34. Net remittances from or (to) Home Office		
35. Dividends to stockholders		
36. Change in treasury stock (Page 3, Lines 36.1 and 36.2, Column 2 minus Column 1)		
37. Aggregate write-ins for gains and losses in surplus	(192,538)	892,085
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	2,522,926	6,055,936
39. Surplus as regards policyholders, as of December 31 current year (Lines 21 plus Line 38) (Page 3, Line 37)	44,355,987	41,833,061

<b>DETAILS OF WRITE-IN LINES</b>		
0501. Private passenger auto escrow	(3,385)	9,807
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)	(3,385)	9,807
1401. Other income/(expense)	(10,876)	(357,141)
1402. Retroactive reinsurance gain/(loss)	(766,367)	(8,104)
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page		
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	(777,243)	(365,245)
3701. Other changes in surplus	(36,481)	164,410
3702. SSAP 10R incremental change	(156,057)	727,675
3703.		
3798. Summary of remaining write-ins for Line 37 from overflow page		
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)	(192,538)	892,085

## CASH FLOW

Cash from Operations	1 Current Year	2 Prior Year
1. Premiums collected net of reinsurance	61,834,731	63,322,019
2. Net investment income	5,113,964	5,798,924
3. Miscellaneous income	(810,497)	464,439
4. Total (Lines 1 through 3)	66,138,198	69,585,382
5. Benefit and loss related payments	40,137,071	31,113,807
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	30,961,269	29,178,212
8. Dividends paid to policyholders	24,170	253,915
9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)	2,951,887	978,558
10. Total (Lines 5 through 9)	74,074,397	61,524,492
11. Net cash from operations (Line 4 minus Line 10)	(7,936,199)	8,060,890
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	24,235,708	17,613,337
12.2 Stocks	1,250,000	
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets		
12.6 Net gains (or losses) on cash, cash equivalents and short-term investments		
12.7 Miscellaneous proceeds		
12.8 Total investment proceeds (Lines 12.1 to 12.7)	25,485,708	17,613,337
13. Cost of investments acquired (long-term only):		
13.1 Bonds	24,286,088	30,642,583
13.2 Stocks		
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets	2,875,648	
13.6 Miscellaneous applications		
13.7 Total investments acquired (Lines 13.1 to 13.6)	27,161,736	30,642,583
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)	(1,676,028)	(13,029,246)
<b>Cash from Financing and Miscellaneous Sources</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes		
16.2 Capital and paid in surplus, less treasury stock	125,958	
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders		
16.6 Other cash provided (applied)	8,337,030	(173,812)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	8,462,988	(173,812)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	(1,149,239)	(5,142,168)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	8,931,897	14,074,065
19.2 End of year (Line 18 plus Line 19.1)	7,782,658	8,931,897

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

20.0001	12.1 - Proceeds from investments sold, matured or repaid - Bonds	3,901,963	
20.0002	12.2 - Proceeds from investments sold, matured or repaid - Stocks	1,245,300	
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	1,107,076	570,126	598,426	1,078,776
2. Allied lines	936,872	458,649	496,892	898,629
3. Farmowners multiple peril	463,696	222,485	232,874	453,307
4. Homeowners multiple peril	9,069,209	4,503,333	4,805,745	8,766,797
5. Commercial multiple peril	11,129,405	5,857,750	5,695,474	11,291,681
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine	1,015,617	499,411	488,262	1,026,766
10. Financial guaranty				
11.1 Medical professional liability—occurrence	4,640	2,426	2,168	4,898
11.2 Medical professional liability—claims-made	644	236	251	629
12. Earthquake	205,281	107,826	104,312	208,795
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health	(478)	478		
16. Workers' compensation	5,418,784	2,265,461	2,282,980	5,401,265
17.1 Other liability—occurrence	3,280,601	1,677,019	1,602,113	3,355,507
17.2 Other liability—claims-made	138,018	59,533	64,129	133,422
17.3 Excess Workers' Compensation		2,947		2,947
18.1 Products liability—occurrence	84,503	57,963	44,659	97,807
18.2 Products liability—claims-made				
19.1,19.2 Private passenger auto liability	11,813,535	3,410,527	4,255,740	10,968,322
19.3,19.4 Commercial auto liability	5,063,762	2,580,080	2,451,821	5,192,021
21. Auto physical damage	9,139,115	3,007,676	3,507,412	8,639,379
22. Aircraft (all perils)				
23. Fidelity	39,242	32,890	32,113	40,019
24. Surety	4,344,519	2,591,515	2,614,879	4,321,155
26. Burglary and theft	1,857	1,148	895	2,110
27. Boiler and machinery	1,144	203	497	850
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	63,257,042	27,909,682	29,281,642	61,885,082

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	598,421	5			598,426
2. Allied lines	496,887	6			496,893
3. Farmowners multiple peril	232,874				232,874
4. Homeowners multiple peril	4,805,745				4,805,745
5. Commercial multiple peril	5,618,044	94	76,999	338	5,695,475
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	486,350	1,913			488,263
10. Financial guaranty					
11.1 Medical professional liability—occurrence	2,168				2,168
11.2 Medical professional liability—claims-made	250	1			251
12. Earthquake	104,312				104,312
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	2,208,026		62,972	11,982	2,282,980
17.1 Other liability—occurrence	1,587,214	5,970	9,267	(338)	1,602,113
17.2 Other liability—claims-made	62,891	1,103	135		64,129
17.3 Excess Workers' Compensation					
18.1 Products liability—occurrence	43,311	6	1,342		44,659
18.2 Products liability—claims-made					
19.1,19.2 Private passenger auto liability	4,255,740				4,255,740
19.3,19.4 Commercial auto liability	2,428,324	23,496			2,451,820
21. Auto physical damage	3,502,608	4,804			3,507,412
22. Aircraft (all perils)					
23. Fidelity	11,704	20,409			32,113
24. Surety	1,394,143	1,220,737			2,614,880
26. Burglary and theft	895				895
27. Boiler and machinery	497				497
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	27,840,404	1,278,544	150,715	11,982	29,281,645
36. Accrued retrospective premiums based on experience					(11,982)
37. Earned but unbilled premiums					(150,715)
38. Balance (Sum of Lines 35 through 37)					29,118,948

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

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



## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 1B – PREMIUMS WRITTEN

Line of Business	1 Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
		2 From Affiliates	3 From Non- Affiliates	4 To Affiliates	5 To Non- Affiliates	
1. Fire	293,412	1,107,076		293,412		1,107,076
2. Allied lines	316,565	936,872		316,565		936,872
3. Farmowners multiple peril		463,696				463,696
4. Homeowners multiple peril	12,180,756	9,069,209		12,180,756		9,069,209
5. Commercial multiple peril	62,925,835	11,129,405		62,925,835		11,129,405
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	436,718	1,015,617		436,718		1,015,617
10. Financial guaranty						
11.1 Medical professional liability--occurrence		4,640				4,640
11.2 Medical professional liability--claims-made		644				644
12. Earthquake	194,537	205,281		194,537		205,281
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health		(478)				(478)
16. Workers' compensation	17,221,384	5,418,784		17,221,384		5,418,784
17.1 Other liability—occurrence	6,301,512	3,280,601		6,301,512		3,280,601
17.2 Other liability—claims-made	(101)	138,018		(101)		138,018
17.3 Excess Workers' Compensation						
18.1 Products liability—occurrence	1,362,380	84,503		1,362,380		84,503
18.2 Products liability—claims-made						
19.1,19.2 Private passenger auto liability	11,628,596	11,813,535		11,628,596		11,813,535
19.3,19.4 Commercial auto liability	30,900,286	5,063,762		30,900,286		5,063,762
21. Auto physical damage	14,404,778	9,139,115		14,404,778		9,139,115
22. Aircraft (all perils)						
23. Fidelity		39,242				39,242
24. Surety	2,323,062	4,344,519		2,323,062		4,344,519
26. Burglary and theft		1,857				1,857
27. Boiler and machinery	1,570	1,144		1,570		1,144
28. Credit						
29. International						
30. Warranty						
31. Reinsurance-Nonproportional Assumed Property	X X X					
32. Reinsurance-Nonproportional Assumed Liability	X X X					
33. Reinsurance-Nonproportional Assumed Financial Lines	X X X					
34. Aggregate write-ins for other lines of business						
35. TOTALS	160,491,290	63,257,042		160,491,290		63,257,042

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	50,000	124,276	50,000	124,276	6,632	71,248	6,632	195,524	16,189
2. Allied lines	25,000	140,204	25,000	140,204	7,400	23,356	7,400	163,560	7,188
3. Farmowners multiple peril		117,535		117,535		21,713		139,248	27,204
4. Homeowners multiple peril	2,910,568	1,537,080	2,910,568	1,537,080	914,924	808,162	914,924	2,345,242	342,274
5. Commercial multiple peril	47,693,330	6,258,705	47,693,330	6,258,705	23,155,532	4,034,340	23,155,532	10,293,045	4,821,260
6. Mortgage guaranty									
8. Ocean marine		28		28		(34)		(6)	
9. Inland marine		54,575		54,575	10,086	30,851	10,086	85,426	40,107
10. Financial guaranty									
11.1 Medical professional liability—occurrence		2,549		2,549		11,636		14,185	7,582
11.2 Medical professional liability—claims-made						2,899		2,899	804
12. Earthquake		237		237				237	(55)
13. Group accident and health								(a)	(15)
14. Credit accident and health (group and individual)									
15. Other accident and health		63,579		63,579		208,225		(a)	271,804
16. Workers' compensation	69,095,981	11,038,657	69,095,981	11,038,657	33,935,120	5,682,804	33,935,120	16,721,461	1,898,937
17.1 Other liability—occurrence	7,422,271	1,789,208	7,422,271	1,789,208	3,645,066	3,988,959	3,645,066	5,778,167	1,493,435
17.2 Other liability—claims-made		118,258		118,258		195,912		314,170	140,065
17.3 Excess Workers' Compensation									2
18.1 Products liability—occurrence	423,891	62,361	423,891	62,361	900,451	65,071	900,451	127,432	63,348
18.2 Products liability—claims-made									
19.1,19.2 Private passenger auto liability	10,631,008	7,050,346	10,631,008	7,050,346	1,686,790	1,312,927	1,686,790	8,363,273	1,595,674
19.3,19.4 Commercial auto liability	14,849,875	3,611,355	14,849,875	3,611,355	11,558,363	2,046,227	11,558,363	5,657,582	882,134
21. Auto physical damage	1,061,223	202,069	1,061,223	202,069	(26,759)	147,453	(26,759)	349,522	65,640
22. Aircraft (all perils)		473		473				473	
23. Fidelity		1,827		1,827		3,030		4,857	5,190
24. Surety	77,601	(493,366)	77,601	(493,366)	405,688	2,073,629	405,688	1,580,263	495,071
26. Burglary and theft		4		4		18		22	84
27. Boiler and machinery		(39)		(39)		351		312	330
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	548,972		548,972	X X X	625,602		1,174,574	26,032
33. Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
34. Aggregate write-ins for other lines of business									
35. TOTALS	154,240,748	32,228,893	154,240,748	32,228,893	76,199,293	21,354,379	76,199,293	53,583,272	11,959,062

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	13,332,871			13,332,871
1.2 Reinsurance assumed	2,417,622			2,417,622
1.3 Reinsurance ceded	13,332,871			13,332,871
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	2,417,622			2,417,622
2. Commission and brokerage:				
2.1 Direct, excluding contingent		21,711,565		21,711,565
2.2 Reinsurance assumed, excluding contingent		9,406,582		9,406,582
2.3 Reinsurance ceded, excluding contingent		21,711,565		21,711,565
2.4 Contingent—direct				
2.5 Contingent—reinsurance assumed		1,077,338		1,077,338
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)		10,483,920		10,483,920
3. Allowances to manager and agents	859	4,456	2	5,317
4. Advertising	82,550	412,477	1,291	496,318
5. Boards, bureaus and associations	24,542	126,160	43	150,745
6. Surveys and underwriting reports	71,945	358,893	1,485	432,323
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries	2,943,009	3,381,128	148,013	6,472,150
8.2 Payroll taxes	59,316	381,093	10,480	450,889
9. Employee relations and welfare	255,739	1,301,469	11,226	1,568,434
10. Insurance	202,920	44,967	1,247	249,134
11. Directors' fees	43	226		269
12. Travel and travel items	180,737	289,046	3,260	473,043
13. Rent and rent items	123,878	457,206	3,806	584,890
14. Equipment	112,267	429,526	4,114	545,907
15. Cost or depreciation of EDP equipment and software	62,631	286,351	2,697	351,679
16. Printing and stationery	33,505	73,684	504	107,693
17. Postage, telephone and telegraph, exchange and express	101,773	394,363	4,990	501,126
18. Legal and auditing	25,411	57,801	7,094	90,306
19. Totals (Lines 3 to 18)	4,281,125	7,998,846	200,252	12,480,223
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 19,559		1,428,322		1,428,322
20.2 Insurance department licenses and fees		175,900		175,900
20.3 Gross guaranty association assessments		(20,076)		(20,076)
20.4 All other (excluding federal and foreign income and real estate)		162,017		162,017
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		1,746,163		1,746,163
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	606,866	568,407	33,164	1,208,437
25. Total expenses incurred	7,305,613	20,797,336	233,416	(a) 28,336,365
26. Less unpaid expenses—current year	11,959,061	2,633,327		14,592,388
27. Add unpaid expenses—prior year	13,428,273	4,070,766		17,499,039
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)	8,774,825	22,234,775	233,416	31,243,016

DETAILS OF WRITE-IN LINES				
2401. Other expenses	434,097	568,407	33,164	1,035,668
2402. Change in unallocated expense reserves	172,769			172,769
2403.				
2498. Sum of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	606,866	568,407	33,164	1,208,437

(a) Includes management fees of \$ 233,416 to affiliates and \$ 0 to non-affiliates.

## EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 1,659,402	1,652,632
1.1 Bonds exempt from U.S. tax	(a) 391,091	386,966
1.2 Other bonds (unaffiliated)	(a) 2,828,476	2,890,941
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b) 39,063	19,531
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)		
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 17,122	16,852
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income	842	842
10. Total gross investment income	4,935,996	4,967,764
11. Investment expenses		(g) 233,418
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)		233,418
17. Net investment income (Line 10 minus Line 16)		4,734,346

DETAILS OF WRITE-IN LINES		
0901. Miscellaneous Income/(Expense)	842	842
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)	842	842
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		
1599. Totals (Lines 1501 through 1503) plus 1598 (Line 15 above)		

- (a) Includes \$ 55,731 accrual of discount less \$ 467,117 amortization of premium and less \$ 152,251 paid for accrued interest on purchases.
- (b) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued dividends on purchases.
- (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (d) Includes \$ 0 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (f) Includes \$ 0 accrual of discount less \$ 0 amortization of premium.
- (g) Includes \$ 0 investment expenses and \$ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$ 0 interest on surplus notes and \$ 0 interest on capital notes.
- (i) Includes \$ 0 depreciation on real estate and \$ 0 depreciation on other invested assets.

## EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. U.S. Government bonds					
1.1 Bonds exempt from U.S. tax					
1.2 Other bonds (unaffiliated)					
1.3 Bonds of affiliates					
2.1 Preferred stocks (unaffiliated)				26,551	
2.11 Preferred stocks of affiliates					
2.2 Common stocks (unaffiliated)					
2.21 Common stocks of affiliates					
3. Mortgage loans					
4. Real estate					
5. Contract loans					
6. Cash, cash equivalents and short-term investments					
7. Derivative instruments					
8. Other invested assets					
9. Aggregate write-ins for capital gains (losses)					
10. Total capital gains (losses)				26,551	

DETAILS OF WRITE-IN LINES					
0901.					
0902.					
0903.					
0998. Summary of remaining write-ins for Line 09 from overflow page					
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 09 above)					

## EXHIBIT OF NONADMITTED ASSETS

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks			
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E - Part 1), cash equivalents (Schedule E - Part 2), and short-term investments (Schedule DA)			
6. Contract loans			
7. Derivatives			
8. Other invested assets (Schedule BA)			
9. Receivables for securities			
10. Securities lending reinvested collateral assets			
11. Aggregate write-ins for invested assets			
12. Subtotals, cash and invested assets (Lines 1 to 11)			
13. Title plants (for Title insurers only)			
14. Investment income due and accrued			
15. Premiums and considerations:			
15.1 Uncollected premiums and agents' balances in the course of collection	259,846	377,270	117,424
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	402	(10,474)	(10,876)
15.3 Accrued retrospective premiums	6,098	13,395	7,297
16. Reinsurance:			
16.1 Amounts recoverable from reinsurers			
16.2 Funds held by or deposited with reinsured companies			
16.3 Other amounts receivable under reinsurance contracts			
17. Amounts receivable relating to uninsured plans			
18.1 Current federal and foreign income tax recoverable and interest thereon			
18.2 Net deferred tax asset	25,138	32,570	7,432
19. Guaranty funds receivable or on deposit			
20. Electronic data processing equipment and software			
21. Furniture and equipment, including health care delivery assets			
22. Net adjustment in assets and liabilities due to foreign exchange rates			
23. Receivables from parent, subsidiaries and affiliates			
24. Health care and other amounts receivable			
25. Aggregate write-ins for other than invested assets	81,135	148,612	67,477
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	372,619	561,373	188,754
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
28. Total (Lines 26 and 27)	372,619	561,373	188,754

DETAILS OF WRITE-IN LINES			
1101.			
1102.			
1103.			
1198. Summary of remaining write-ins for Line 11 from overflow page			
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)			
2501. Other assets	81,135	148,612	67,477
2502.			
2503.			
2598. Summary of remaining write-ins for Line 25 from overflow page			
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	81,135	148,612	67,477

## 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 Ohio, the accompanying financial statements of American Fire and Casualty Insurance Company (the "Company") have been prepared in conformity with the National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual* ("APP Manual").

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

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

#### C. Accounting Policies

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

In addition, the Company applies the following accounting policies, where applicable:

1. Short term investments are carried at cost, adjusted where appropriate for amortization of premium or discount, or fair value as specified by the Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO Manual).
2. Bonds are carried at cost, adjusted where appropriate for amortization of premium or discount, or fair value as specified by the SVO Manual.
3. Common stocks are carried at fair value, except that investments in stocks of subsidiaries, controlled and affiliated ("SCA") companies are carried according to Note 1C(7).
4. Preferred stocks are carried at cost or fair value as specified by the SVO Manual. Preferred stocks of SCA companies are carried according to Note 1C(7).
5. Mortgage loans are carried at unpaid principal balances, less impairments as specified by the SVO Manual.
6. Mortgage backed/asset backed securities are carried at amortized cost or fair value based on guidance in the SVO Manual. Prepayment assumptions for mortgage backed/asset backed securities are updated monthly using the Bloomberg data service. The retrospective adjustment method is used to value all mortgage backed/asset backed securities.
7. Investments in SCA companies are carried in accordance with SSAP No. 97, Investment in Subsidiaries, Controlled Entities and Affiliates, and the SVO Manual.
8. Investments in joint ventures, partnerships, and limited liability companies are carried in accordance with SSAP No. 48, Joint Ventures, Partnerships and Limited Liability Companies, and the SVO Manual.
9. Derivative Securities, refer to Note 8.
10. Investment income is anticipated as a factor in the premium deficiency calculation, in accordance with SSAP No. 53, *Property Casualty Contracts - Premiums*. Refer to Note 30.
11. Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods, for making such estimates and for establishing the resulting liability, are continually reviewed and follow current standards of practice. Any adjustments to the liability are reflected in the period that they are determined.
12. The Company did not change its capitalization policy in 2010.
13. The Company has no pharmaceutical rebate receivables.

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

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

### **Note 3- Business Combinations and Goodwill**

#### A. Statutory Purchase Method

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

## NOTES TO FINANCIAL STATEMENTS

### B. Statutory Mergers

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

### C. Impairment Loss

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

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

The Company has no discontinued operations.

### **Note 5- Investments**

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

The Company does not invest in Mortgage Loans.

#### B. Troubled Debt Restructuring for Creditors

Not applicable

#### C. Reverse Mortgages

The Company has no reverse mortgages.

#### D. Loaned Backed Securities

1. Prepayment speed assumptions are updated monthly with data sourced from the Bloomberg data service.
2. All Loaned Backed Securities with a recognized other-than-temporary impairment disclosed in the aggregate during 2010 as of December 31, 2010: None.
3. Each Loaned Backed Security with a recognized other-than-temporary impairment held by the Company at December 31, 2010: None.
4. 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, 2010:

	1	2
	Less Than 12 Months	Greater Than 12 Months
Gross Unrealized Loss	\$(66,038)	
Fair Value of Securities with Unrealized Losses	\$3,923,012	

5. The Company reviews fixed income securities for impairment on a quarterly basis. Securities are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer, (d) significant change in the business climate or credit ratings of the issuer, (e) general market conditions and volatility, (f) industry factors, and (g) the past impairment of the security holding or the issuer. If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' 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.

#### E. Repurchase Agreements and Securities Lending

1. The Company did not enter into any repurchase agreements during the year.
2. The Company maintained collateral for loaned securities.
  - (1) For loaned securities, Company policies require a minimum of 102% of the fair value of securities loaned to be maintained as collateral. Cash collateral received is invested in short-term investments.
  - (2) The Company has not pledged any of its assets as collateral.
  - (3) Sources of collateral are cash and securities. Cash collateral is reinvested by the lending agent in short term securities.



## NOTES TO FINANCIAL STATEMENTS

3. Aggregate Amount of Contractually open cash collateral positions:

Aging of Collateral	Total Fair Value
Open	\$ 2,876,075
30 Days or Less	-
31 to 60 Days	-
61 to 90 Days	-
Greater than 90 Days	-
Sub-Total	2,876,075
Securities Received	195,051
Total Collateral Received	\$ 3,071,126

4. Securities Lending Transactions Administered by an Affiliated Agent

Not applicable

1. Collateral Reinvestment

a. Aggregate Amount Cash Collateral Reinvested

	Amortized Cost	Fair Value
Open	-	-
30 Days or Less	\$ 1,539,845	\$ 1,539,880
31 to 60 Days	1,237,127	1,237,185
61 to 90 Days	98,976	99,010
90 to 120 Days	-	-
121 to 180 Days	-	-
181 to 365 Days	-	-
1 to 2 Years	-	-
2 to 3 Years	-	-
Greater than 3 Years	-	-
Subtotal	2,875,949	2,876,075
Securities Received	195,051	195,051
Total Collateral Reinvested	\$ 3,071,000	\$ 3,071,126

- b. Maturity profile of the cash reinvestment program sufficiently matches loan profile with liquidity demands consistent with an open loan program.

F. Real Estate

The Company does not own real estate.

G. Investments in Low-Income Housing Tax Credits

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

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

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

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

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

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

**Note 7- Investment Income**

A. Accrued Investment Income

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

B. Amounts Nonadmitted

No amounts were excluded as of December 31, 2010.

## NOTES TO FINANCIAL STATEMENTS

### 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, 2010			December 31, 2009			Change		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			(Col 1 + 2)			(Col 4 + 5)	(Col 1 - 4)	(Col 2- 5)	(Col 7 + 8)
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross Deferred Tax Assets	5,259,190	0	5,259,190	5,502,828	60,392	5,563,220	(243,638)	(60,392)	(304,030)
Statutory Valuation Allowance Adjustment	0	0	0	0	0	0	0	0	0
Adjusted Gross Deferred Tax Assets	5,259,190	0	5,259,190	5,502,828	60,392	5,563,220	(243,638)	(60,392)	(304,030)
Deferred Tax Liabilities	(1,135,273)	(856,737)	(1,992,010)	(1,873,950)	0	(1,873,950)	738,677	(856,737)	(118,060)
Net DTA (DTL)	4,123,917	(856,737)	3,267,180	3,628,878	60,392	3,689,270	495,039	(917,129)	(422,090)
Deferred Tax Assets Nonadmitted	(25,138)	0	(25,138)	(32,570)	0	(32,570)	7,432	0	7,432
Net Admitted DTA (DTL)	4,098,779	(856,737)	3,242,042	3,596,308	60,392	3,656,700	502,471	(917,129)	(414,658)

The Company has elected to admit additional DTAs pursuant to SSAP No. 10R, paragraph 10e. The current period election does not differ from the prior reporting period.

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

	December 31, 2010			December 31, 2009			Change		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			(Col 1 + 2)			(Col 4 + 5)	(Col 1 - 4)	(Col 2- 5)	(Col 7 + 8)
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Recoverable through loss carrybacks (10a.)	2,670,423	0	2,670,423	2,862,000	0	2,862,000	(191,577)	0	(191,577)
Lesser of:									
Expected to be recognized within one year (10bi.)	0	0	0	6,633	60,392	67,025	(6,633)	(60,392)	(67,025)
10% of adjusted capital and surplus (10bii.)			3,955,548			3,755,256			
Adj. gross DTAs offset against existing DTLs (10c.)	1,135,273	856,737	1,992,010	1,873,950	0	1,873,950	(738,677)	856,737	118,060
Total	3,805,696	856,737	4,662,433	4,742,583	60,392	4,802,975	(936,887)	796,345	(140,542)

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

	December 31, 2010			December 31, 2009			Change		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			(Col 1 + 2)			(Col 4 + 5)	(Col 1 - 4)	(Col 2- 5)	(Col 7 + 8)
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Recoverable through loss carrybacks (10ei.)	2,990,579	0	2,990,579	3,299,000	0	3,299,000	(308,421)	0	(308,421)
Lesser of:									
Expected to be recognized within three years (10eia.)	251,462	0	251,462	297,308	60,392	357,700	(45,846)	(60,392)	(106,238)
15% of adjusted capital and surplus (10eib.)			5,933,322			5,632,884			
Adj. gross DTAs offset against existing DTLs (10eiii.)	1,135,273	856,737	1,992,010	1,873,950	0	1,873,950	(738,677)	856,737	118,060
Total	4,377,314	856,737	5,234,051	5,470,258	60,392	5,530,650	(1,092,944)	796,345	(296,599)

Used in SSAP No. 10R, Paragraph 10.d.	December 31, 2010	December 31, 2009	Change
Total Adjusted Capital	43,784,369	41,105,386	2,678,983
Authorized Control Level	5,714,841	5,833,197	(118,355)

## NOTES TO FINANCIAL STATEMENTS

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

	December 31, 2010			December 31, 2009			Change		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			(Col 1 + 2)			(Col 4 + 5)	(Col 1 - 4)	(Col 2- 5)	(Col 7 + 8)
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Admitted Deferred Tax Assets	3,527,160	(856,737)	2,670,423	2,868,633	60,392	2,929,025	658,527	(917,129)	(258,602)
Admitted Assets			172,447,057			164,657,890			7,789,167
Adjusted Statutory Surplus			43,784,369			41,105,386			2,678,983
Total Adjusted Capital from DTAs			43,784,369			41,105,386			2,678,983

Increase due to SSAP No. 10R, Paragraph 10.e.	December 31, 2010			December 31, 2009			Change		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			(Col 1 + 2)			(Col 4 + 5)	(Col 1 - 4)	(Col 2- 5)	(Col 7 + 8)
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Admitted Deferred Tax Assets	571,619	0	571,619	727,675	0	727,675	(156,056)	0	(156,056)
Admitted Assets			173,018,676			165,385,565			7,633,111
Adjusted Statutory Surplus			44,355,987			41,833,061			2,522,926
Total Adjusted Capital from DTAs			44,355,987			41,833,061			2,522,926

	December 31, 2010		
	(1)	(2)	(3)
			(Col 1 + 2)
	Ordinary Percent	Capital Percent	Total Percent
Impact of Tax Planning Strategies			
(a) Adjusted Gross DTAs (% of Total Adjusted Gross DTAs)	0%	0%	0%
(b) Net Admitted Adjusted Gross DTAs (% of Total Net Admitted Gross DTAs)	0%	0%	0%

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:

	2010	2009
Federal	\$734,750	\$2,750,937
Foreign	0	0
Realized capital gains	0	(62,587)
Federal and foreign income taxes incurred	\$734,750	\$2,688,350

The Company's deferred tax assets and liabilities result primarily from limits on unearned premium reserve deduction, discounting of unpaid loss and LAE reserves, market discount on owned securities and deferred capital loss limitation.

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

	2010
Change in net deferred income tax (without unrealized gain or loss)	\$(412,798)
Change in tax effect of unrealized (gains) losses	(9,292)
Total change in net deferred income tax	\$(422,090)

D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax exempt interest, discounting of unpaid losses and LAE reserves, and limits on unearned premium reserve deduction.

E. The amount of Federal income taxes incurred and available for recoupment in the event of future losses is \$848,750 from the current year and \$2,350,536 from the preceding year.

The Company has no remaining net operating loss carry forward available to offset future net income subject to Federal income taxes.

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

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

Access Insurance Services, Co.  
 America First Insurance Company  
 American Economy Insurance Company  
 American States Insurance Company

AMBCO Capital Corporation  
 America First Lloyds Insurance Company  
 American Fire & Casualty Company  
 American States Insurance Company of Texas

## NOTES TO FINANCIAL STATEMENTS

American States Lloyds Insurance Company  
 Avomark Insurance Company (merged 2/23/2010)  
 Berkeley Holding Company Associates, Inc.  
 Bridgefield Casualty Insurance Company  
 Capitol Court Corporation  
 Capitol Agency, Inc., The (Ohio corporation) Dissolved 11/17/2010  
 Cascade Disability Management, Inc.  
 Commercial Aviation Insurance, Inc.  
 Companies Agency of Pennsylvania, Inc. (Dissolved 9/9/2010)  
 Copley Venture Capital, Inc.  
 Emerald City Insurance Agency, Inc.  
 Excelsior Insurance Company  
 First National Insurance Company of America  
 Florida State Agency, Inc. (Dissolved 8/20/2010)  
 General America Corporation of Texas  
 Golden Eagle Insurance Corporation  
 Hawkeye-Security Insurance Company  
 Indiana Insurance Company  
 LEXCO Limited  
 Liberty Assignment Corporation  
 Liberty Financial Services, Inc.  
 Liberty Insurance Corporation  
 Liberty Insurance Underwriters Inc.  
 Liberty International Holdings Inc.  
 Liberty Life Holdings Inc.  
 Liberty Management Services, Inc.  
 Liberty Mutual Agency Corporation  
 Liberty Mutual Group Inc.  
 Liberty Mutual Insurance Company  
 Liberty Northwest Insurance Corporation  
 Liberty RE (Bermuda) Limited  
 Liberty Surplus Insurance Corporation  
 LIU Specialty Insurance Agency Inc.  
 LM Insurance Corporation  
 LM Property & Casualty Insurance Company  
 LRE Properties, Inc.  
 Mid-American Fire & Casualty Company  
 OCASCO Budget, Inc.  
 Ohio Casualty Corporation  
 Open Seas Solutions, Inc.  
 Peerless Indemnity Insurance Company  
 Pilot Insurance Services, Inc.  
 S.C. Bellevue, Inc.  
 Safeco Corporation  
 Safeco Insurance Company of America  
 Safeco Insurance Company of Indiana  
 Safeco Lloyds Insurance Company  
 Safeco Properties, Inc.  
 San Diego Insurance Company  
 St. James Insurance Company Ltd.  
 State Agency, Inc. (Wisconsin corporation) (Dissolved 8/24/2010)  
 Summit Consulting, Inc. of Louisiana  
 The First Liberty Insurance Corporation  
 The Ohio Casualty Insurance Company  
 Wausau General Insurance Company  
 West American Insurance Company  
 Winmar of the Desert, Inc.  
 Winmar-Metro, Inc.

American States Preferred Insurance Company  
 Barrier Ridge LLC  
 Berkeley Management Corporation  
 Bridgefield Employers Insurance Company  
 Capitol Agency, Inc., The (Arizona corporation)  
 Capitol Agency, Inc., The (Tennessee corporation) (Dissolved 7/1/2010)  
 Colorado Casualty Insurance Company  
 Companies Agency of New York, Inc. (Dissolved 3/3/2010)  
 Consolidated Insurance Company  
 Diversified Settlements, Inc.  
 Employers Insurance Company of Wausau  
 F.B. Beattie & Co., Inc.  
 First State Agency Inc.  
 General America Corporation  
 General Insurance Company of America  
 Gulf States AIF, Inc.  
 Heritage-Summit HealthCare, Inc.  
 Insurance Company of Illinois  
 Liberty-USA Corporation  
 Liberty Energy Canada, Inc.  
 Liberty Hospitality Group, Inc.  
 Liberty Insurance Holdings, Inc.  
 Liberty International Europe Inc.  
 Liberty Life Assurance Company of Boston  
 Liberty Lloyds of Texas Insurance Company  
 Liberty Mexico Holdings Inc.  
 Liberty Mutual Fire Insurance Company  
 Liberty Mutual Holding Company Inc.  
 Liberty Mutual Personal Insurance Company  
 Liberty Personal Insurance Company  
 Liberty Sponsored Insurance (Vermont) Inc.  
 LIH-RE of America Corporation  
 LM General Insurance Company  
 LM Personal Insurance Company  
 LMHC Massachusetts Holdings Inc.  
 Mid-American Agency, Inc. (Dissolved 8/20/2010)  
 North Pacific Insurance Company  
 OCI Printing, Inc.  
 Ohio Security Insurance Company  
 Oregon Automobile Insurance Company  
 Peerless Insurance Company  
 Rianoc Research Corporation  
 SAFECARE Company, Inc.  
 Safeco General Agency, Inc.  
 Safeco Insurance Company of Illinois  
 Safeco Insurance Company of Oregon  
 Safeco National Insurance Company  
 Safeco Surplus Lines Insurance Company  
 SCIT, Inc.  
 State Agency, Inc. (Indiana corporation) (Dissolved 8/23/2010)  
 Summit Consulting, Inc.  
 Summit Holding Southeast, Inc.  
 The Midwestern Indemnity Company  
 The Netherlands Insurance Company  
 The National Corporation  
 Wausau Business Insurance Company  
 Wausau Underwriters Insurance Company  
 Winmar Company, Inc.  
 Winmar Oregon, Inc.

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

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

- A. All of the outstanding shares of capital stock of the Company are held by The Ohio Casualty Insurance Company ("OCIC"), an Ohio insurance company. OCIC is wholly owned by Ohio Casualty Corporation, an Ohio insurance holding company. Ohio Casualty Corporation is owned by Liberty Mutual Insurance Company ("LMIC" 78%), a Massachusetts insurance company; Liberty Mutual Fire Insurance Company ("LMFIC" 6%), a Wisconsin insurance company; Employers Insurance Company of Wausau ("EICOW" 8%), a Wisconsin insurance company; and Peerless Insurance Company ("PIC" 8%), a New Hampshire insurance company. The ultimate parent of LMIC, LMFIC, EICOW and PIC is Liberty Mutual Holding Company Inc., a Massachusetts company.
- B. Transactions between the Company and its affiliates are listed on Schedule Y Part 2.

## NOTES TO FINANCIAL STATEMENTS

- C. As of December 31, 2010, the Company had the following capital transactions with its parent and subsidiaries:
1. Received capital contributions of \$125,958 from its parent, OCIC.
- D. At December 31, 2010, the Company reported a net \$1,899,460 due to affiliates. In general, the terms of the inter-company arrangements require settlement at least quarterly.
- E. The Company has not made any guarantees or initiated any undertakings for the benefit of affiliates which result in a material contingent exposure of the Company's or affiliates' assets or liabilities.
- F. Refer to Note 26 for information regarding the Amended and Restated Reinsurance Pooling Agreement.

The Company is a party to a services agreement (the "Agreement") with 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 Liberty Mutual Group Inc. (LMGI") and cash management agreements with Liberty Mutual Investment Advisors LLC ("LMIA"). Under these agreements, LMGI and LMIA 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 a member of a holding company structure as illustrated in Schedule Y Part 1.
- H. The Company does not own shares of any upstream intermediate or ultimate parent, either directly or indirectly via a downstream subsidiary, controlled or affiliated company.
- I. The Company does not own investments in subsidiary, controlled or affiliated companies that exceed 10% of its admitted assets.
- J. The Company does not own any investments in subsidiary, controlled or affiliated entities.
- K. The Company does not hold any investments in foreign insurance subsidiaries.
- L. The Company does not hold any investments in downstream non-insurance holding companies.

### **Note 11 - Debt**

- A. Debt (Including Capital Notes)

The Company has no debt, including capital notes.

- B. Federal Home Loan Bank Agreements

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

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

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.

As a result of the acquisition of Safeco Corporation, by Liberty Mutual on September 22, 2008, the Safeco Corporation'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.

The Safeco Corporation sponsored 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. The Internal Revenue Service issued a favorable letter of determination for the Plan on May 6, 2010. As a result, all assets of the plan were distributed to plan participants by the end of the third quarter of 2010. The final distribution resulted in a settlement charge of \$267,063. The CBP pension costs are subject to the inter-company pooling agreement described in Note 26. These costs amounted to \$41,766 and \$8,556 in 2010 and 2009, respectively. Also, a CBP additional minimum liability of \$0 and \$29,784, also subject to the inter-company pooling agreement, was recognized in 2010 and 2009 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.

## NOTES TO FINANCIAL STATEMENTS

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

1. The Company has 2,000,000 shares authorized and 1,116,667 shares issued and outstanding as of December 31, 2010. All shares have a stated par value of \$3.
2. Preferred Stock  
Not applicable
3. There are no dividend restrictions.
4. The Company did not pay any dividends to its parent during 2010.
5. The maximum amount of dividends that can be paid by Ohio-domiciled insurance companies to shareholders without prior approval of the Insurance Director is the greater of (a) 10% of surplus or (b) net income, subject to the availability of accumulated undistributed earnings. The maximum dividend payout that may be made without prior approval in 2011 is \$4,435,599.
6. As of December 31, 2010, the Company has restricted surplus of \$571,618 from recording the increase in admitted adjusted gross DTA's as a result of applying the revised guidance in SSAP No. 10R, *Income Taxes*, and pre-tax restricted surplus of \$129,774 resulting from retroactive reinsurance contracts.
7. The Company had no advances to surplus.
8. The Company does not hold stock for special purposes.
9. The Company had changes in special surplus funds resulting from prior year's retroactive reinsurance contracts during 2010 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 net unrealized gains and (losses) is \$0.
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 made no commitments, contingent commitments or guarantees on behalf of affiliates, except as indicated in Note 10E.

#### B. Assessments

The Company is subject to guaranty fund and other assessments by the states in which it writes business. Guaranty fund assessments 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 \$273,311 that is offset by future premium tax credits of \$50,010. 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 2010.

During 2010 there were no material insolvencies to report. The Company continues to remit payments relating to prior year insolvencies.

#### C. Gain Contingencies

Not applicable

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

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

## NOTES TO FINANCIAL STATEMENTS

### 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.

Pursuant to North Carolina General Statute #58-36-25, the potential interest payable to policyholders for the 2010 Private Passenger Automobile Escrow was \$4.

### **Note 15 - Leases**

#### A. Lessee Leasing Arrangements

The Company leases office space, plant and equipment under various non cancelable operating lease arrangements. The Company has also 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 property, plant and equipment 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>
2011	\$34,035	\$239,546
2012	34,035	236,513
2013	34,035	159,391
2014	2,836	149,502
2015	0	83,323
2016 & thereafter	0	119,094
Total	\$104,941	\$987,369

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

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

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

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

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

#### A. Transfers of Receivables Reported as Sales

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

#### 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. Collateral is not restricted and currently \$0 extends beyond one year from December 31, 2010. 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, 2010 the total fair value of securities on loan was \$2,977,512, with corresponding collateral value of \$3,071,126 of which \$2,876,075 represents cash collateral.

## NOTES TO FINANCIAL STATEMENTS

C. Wash Sales

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

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

A. Administrative Services Only (ASO) Plans

Not applicable

B. Administrative Services Contract (ASC) Plans

In 2008, certain members of the PIC Amended and Restated Reinsurance Pooling Agreement (refer to Note 26) agreed to become participating insurers of the California Earthquake Authority ("CEA"), a publicly-managed, privately funded organization that provides residential earthquake insurance in California. As participating insurers of the CEA, the companies act as third party administrators and perform certain administrative services on behalf of the CEA, including underwriting, policy issuance, premium collection, and claims payment. The CEA reimburses the companies for commissions and claims paid on behalf of the CEA. The companies also receive an administrative fee equal to 3.43% of premium and 9% of claims paid. These administrative fees are subject to the inter-company pooling agreement. In 2010, the Company recorded net CEA administrative fees of \$6,360.

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts

Not applicable

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

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

**Note 20- Fair Value Measurements**

Pursuant to the guidance in SSAP No. 100, Fair Value Measurements, the Company has no assets or liabilities measured at fair value.

**Note 21- Other Items**

A. Extraordinary Items

The Company has no extraordinary items to report.

B. Troubled Debt Restructuring: Debtors

Not applicable

C. Other Disclosures

1) Assets in the amount of \$24,316,794 and \$34,665,212 as of December 31, 2010 and 2009, respectively, were on deposit with government authorities or trustees as required by law.

2) 2010 North Carolina Private Passenger Automobile Escrow

As mandated by North Carolina Statute #58-7-26(C), the escrow account of the company was \$6,762 at December 31, 2010.

3) Interrogatory 6.1

In 2010, as a member of the inter-company reinsurance pooling arrangement in which PIC is the pool leader, the Company had the benefit, together with its affiliates that cede business to PIC or that are members of the reinsurance pooling arrangement, of Workers' Compensation Catastrophe XOL reinsurance with limits of \$110,000,000 part of \$200,000,000 xs \$100,000,000 purchased by PIC and covering PIC's direct and assumed from affiliates workers' compensation business.

Interrogatory 6.3

In 2010, as a member of the inter-company pooling arrangement in which PIC is the pool leader, the Company had the benefit, together with its affiliates that cede business to PIC or that are members of the reinsurance pooling arrangement, of traditional Property Catastrophe XOL reinsurance, with limits of \$742,500,000 part of \$825,000,000 xs \$500,000,000 covering PIC's direct and assumed from affiliates property business.

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

E. Business Interruption Insurance Recoveries

The Company does not purchase business interruption coverage.



## NOTES TO FINANCIAL STATEMENTS

### 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

<u>Description of State Transferable Tax Credits</u>	<u>State</u>	<u>Carrying Value</u>	<u>Unused Amount</u>
Historical Rehabilitation Credit	OK	\$27,300	\$27,300
<u>Total</u>		<u>\$27,300</u>	<u>\$27,300</u>

- (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. Subprime-Mortgage-Related Risk Exposure

- The Company has not purchased securities characterized by the market as subprime. The Company reviews such factors as average FICO scores, loan to value ratios, and levels of documentation when evaluating securities.
- The Company does not have any direct exposure through investments in sub-prime mortgage loans.
- The Company does not have any direct exposure through other investments.
- The Company does not have any underwriting exposure to sub-prime mortgage risk.

### Note 22- Events Subsequent

- A. The Company evaluated subsequent events through February 24, 2011, the date the financial statements were available to be issued.

There were no events subsequent to December 31, 2010 that would require disclosure.

### Note 23- Reinsurance

#### A. Unsecured Reinsurance Recoverable

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

#### B. Reinsurance Recoverable in Dispute

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

#### C. Reinsurance Assumed & Ceded

1. The following table sets forth the maximum return premium and commission equity due the reinsurers or the Company if all of the Company's assumed and ceded reinsurance were canceled as of December 31, 2010.

	Assumed Reinsurance		Ceded Reinsurance		Net Reinsurance	
	UEP	Commission Equity	UEP	Commission Equity	UEP	Commission Equity
Affiliates	29,118,946	4,367,842	74,716,982	11,207,547	(45,598,036)	(6,839,705)
All Other	-	-	-	-	-	-
Total	29,118,946	4,367,842	74,716,982	11,207,547	(45,598,036)	(6,839,705)

Direct Unearned Premium Reserve: 74,716,982

2. Certain contracts provide for additional or return commissions based on the actual loss experience of the produced or reinsured business. Amounts accrued at December 31, 2010 are as follows:

Description	Direct	Assumed	Ceded	Net
Contingent commissions	-	1,562,221	-	1,562,221
Sliding scale adjustments				
Other profit commissions				
Totals	-	1,562,221	-	1,562,221

## NOTES TO FINANCIAL STATEMENTS

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

D. Uncollectible Reinsurance

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

E. Commutation of Ceded Reinsurance

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

F. Retroactive Reinsurance

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

		Assumed	Ceded
a.	Reserves Transferred:		
	1. Initial	2,848,900	-
	2. Adjustments – Prior Year(s)	(2,308,489)	-
	3. Adjustments – Current Year	31,995	-
	4. Total	572,406	-
b.	Consideration Paid or Received:		
	1. Initial	2,344,334	-
	2. Adjustments – Prior Year(s)	89,358	-
	3. Adjustments – Current Year	-	-
	4. Total	2,433,692	-
c.	Amounts Recovered / Paid – Cumulative:		
	1. Initial		
	2. Adjustments – Prior Year(s)	2,892,615	-
	3. Adjustments – Current Year	(9,698)	-
	4. Total	2,882,917	-
d.	Special Surplus from Retroactive Reinsurance:		
	1. Initial Surplus Gain or Loss	(592,397)	-
	2. Adjustments – Prior Year(s)	(494,769)	-
	3. Adjustments – Current Year	(22,298)	-
	4. Current Year Special Surplus	129,774	-
	5. Cumulative Total Transferred to Unassigned Funds	(1,239,237)	-
e.	All cedents and reinsurers included in the above transactions:		
	Peerless Insurance Company	572,406	-
	Total	572,406	-

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. Reinsurance Accounted for as a Deposit

The Company has not entered into any reinsurance agreements that have been accounted for as deposits as of December 31, 2010.

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

The Company has not entered into any property and casualty run-off agreements which qualify for prospective reinsurance accounting treatment, pursuant to SSAP No. 62R, Property and Casualty Reinsurance.

**Note 24 - Retrospectively Rated Contracts and Contracts Subject to Redetermination**

- A. The Company estimates accrued retrospective premium adjustments through the review of each individual retrospectively rated risk, comparing case-base loss development with that anticipated in the policy contract to arrive at the best estimate of return or additional retrospective premium.
- B. Accrued retrospective premiums are recorded as a component of written premiums.
- C. For detail of net premium written subject to retrospective rating features refer to Schedule P, Part 7A.

## NOTES TO FINANCIAL STATEMENTS

- D. Ten Percent of the amount of accrued retrospective premiums not offset by retrospective return premiums, other liabilities to the same party (other than loss and loss adjustment expense reserves), or collateral as permitted by SSAP No. 66, retrospectively rated contracts, has been non-admitted.

a. Total accrued retro premium	\$61,063
b. Unsecured amount	
c. Less: Non-admitted amount (10%)	6,098
d. Less: Non-admitted for any person for whom agents' balances or uncollected premiums are non-admitted	
e. Admitted amount (a) - (c) - (d)	\$54,965

### **Note 25 - Changes in Incurred Losses and Loss Adjustment Expenses**

Incurred loss and loss adjustment expense attributed to insured events on prior years has decreased \$729,132 during 2010. This decrease was primarily the result of updated reserving analysis and improving loss trends in the Commercial Multiple Peril \$180,785, Fidelity/Surety \$585,031 and Private Passenger Auto Liability \$669,116 lines. The decrease was also the result of a reclassification of loss adjustment expenses to other underwriting expenses in the Commercial Multiple Peril line. This was partially offset by weakening loss trends in the Workers' Compensation \$343,992, Other-Including Credit, Accident and Health \$232,327, and Nonproportional Assumed Liability \$181,544 lines. Prior estimates are revised as additional information becomes known regarding individual claims.

### **Note 26- Intercompany Pooling Arrangements**

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

		NAIC Company Number	Pooling Percentage	Line of Business
Lead Company:	Peerless Insurance Company ("PIC")	24198	25.20%	All Lines
Affiliated Pool Companies:	The Ohio Casualty Insurance Company ("OCIC")	24074	20.40%	All Lines
	Safeco Insurance Company of America ("SICOA")	24740	15.20%	All Lines
	General Insurance Company of America ("GICA")	24732	9.20%	All Lines
	American States Insurance Company ("ASIC")	19704	7.60%	All Lines
	American Economy Insurance Company ("AEIC")	19690	5.60%	All Lines
	Indiana Insurance Company ("IIC")	22659	4.80%	All Lines
	Golden Eagle Insurance Corporation ("GEIC")	10836	3.00%	All Lines
	Peerless Indemnity Insurance Company ("PIIC")	18333	3.00%	All Lines
	Safeco Insurance Company of Illinois ("SICIL")	39012	2.00%	All Lines
	The Netherlands Insurance Company ("NIC")	24171	1.80%	All Lines
	American States Preferred Insurance Company ("ASPCO")	37214	0.80%	All Lines
	First National Insurance Company of America ("FNICA")	24724	0.80%	All Lines
	American Fire and Casualty Company ("AFCIC")	24066	0.60%	All Lines
	America First Insurance Company ("AFIC")	12696	0.00%	All Lines
	America First Lloyd's Insurance Company ("AFLIC")	11526	0.00%	All Lines
	American States Insurance Company of Texas ("ASICT")	19712	0.00%	All Lines
	American States Lloyds Insurance Company ("ASLCO")	31933	0.00%	All Lines
	Colorado Casualty Insurance Company ("CCIC")	41785	0.00%	All Lines
	Consolidated Insurance Company ("CIC")	22640	0.00%	All Lines
	Excelsior Insurance Company ("EIC")	11045	0.00%	All Lines
	Hawkeye-Security Insurance Company ("HSIC")	36919	0.00%	All Lines
	Mid-American Fire & Casualty Company ("MAFCC")	23507	0.00%	All Lines
	The Midwestern Indemnity Company ("MWIC")	23515	0.00%	All Lines
	Montgomery Mutual Insurance Company ("MMIC")	14613	0.00%	All Lines
	National Insurance Association ("NIA")	27944	0.00%	All Lines
	Ohio Security Insurance Company ("OSIC")	24082	0.00%	All Lines
	Safeco Insurance Company of Indiana ("SICIN")	11215	0.00%	All Lines
	Safeco Insurance Company of Oregon ("SICOR")	11071	0.00%	All Lines
	Safeco Lloyds Insurance Company ("SLICO")	11070	0.00%	All Lines
	Safeco National Insurance Company ("SNIC")	24759	0.00%	All Lines
	Safeco Surplus Lines Insurance Company ("SSLIC")	11100	0.00%	All Lines
	West American Insurance Company ("WAIC")	44393	0.00%	All Lines
			100.0%	

## NOTES TO FINANCIAL STATEMENTS

100%	Liberty Northwest Insurance Corporation ("LNW")	41939	0.00%	All Lines
Quota	North Pacific Insurance Company ("NPIC")	23892	0.00%	All Lines
Share	Oregon Automobile Insurance Company ("OAIC")	23922	0.00%	All Lines
Affiliated	Liberty Mutual Mid-Atlantic Insurance Company ("LMMAIC")	14486	0.00%	All Lines

Companies:

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

- (a) Each Affiliated Pool Company cedes its net underwriting activity to the Lead Company. Each 100% Quota Share Affiliated Company cedes its net underwriting activity to the Lead Company.
- (b) After recording the assumed affiliate transactions noted above, the Lead Company records 100% of its external assumed and ceded reinsurance activity.
- (c) The Lead Company's remaining underwriting activity, after processing all internal and external reinsurance is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above.
- (d) There were no members that are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement that have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.
- (e) There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the Lead Company and corresponding entries on the assumed and ceded reinsurance schedules of other pooled participants.
- (f) The write-off of uncollectible reinsurance is pooled and the Provision for Reinsurance is recognized by the entity placing the outbound external reinsurance
- (g) Amounts due (to)/from affiliated entities participating in the PIC Amended and Restated Reinsurance Pooling Agreement as at December 31, 2010:

Affiliate:	Amount:
Peerless Insurance Company	(24,025,293)
The Netherlands Insurance Company	(2,042,444)
Indiana Insurance Company	(5,446,518)
Peerless Indemnity Insurance Company	(3,404,074)
Ohio Casualty Insurance Company	(20,160,168)
Ohio Security Insurance Company	972,506
West America Insurance Company	(1,234,734)
American Fire and Casualty Insurance Company	(1,083,517)
Golden Eagle Insurance Corporation	(3,404,074)
American Economy Insurance Company	251,450
American States Insurance Company	(14,046,151)
American States Insurance Company of Texas	(318,718)
American States Lloyds Insurance Company	(3,029)
American States Preferred Insurance Company	1,378,282
First National Insurance Company	4,977,377
General Insurance Company of America	(9,795,724)
Safeco Insurance Company of America	23,738,540
Safeco Insurance Company of Illinois	38,606,218
Safeco Insurance Company of Indiana	5,927,201
Safeco Insurance Company of Oregon	7,829,541
Safeco Lloyds Insurance Company	1,513,595
Safeco National Insurance Company	69,388
Safeco Surplus Insurance Company	(60,938)

Effective January 1, 2010, LMMAIC cancelled its participation in the Peerless Insurance Company ("PIC") Amended and Restated Reinsurance Pooling Agreement and concurrently became a participant in the Liberty Mutual Inter-Company Reinsurance Agreement with a 0.0% pool participation percentage and entered into an 100% Quota Share Reinsurance Pooling Agreement with PIC. Pursuant to the 100% Quota Share Reinsurance Agreement with PIC, the Company continues to cede the business it wrote for the Peerless Pool to PIC. New business is ceded to Liberty Mutual Insurance Company ("LMIC"), the lead company in the Liberty Pool.

Effective January 1, 2010, BCIC and BEIC novated their 100% Quota Share Reinsurance Agreements with PIC and entered into 100% Quota Share Inter-Company Reinsurance Agreements with LMIC.

Effective February 23, 2010, Avomark Insurance Company merged with WAIC. WAIC was the surviving entity.

### **Note 27- Structured Settlements**

- A. As a result of purchased annuities with the claimant as payee, The Company no longer carries reserves of \$731,166 after applying Inter-Company Reinsurance Agreement percentages. The Company is contingently liable should the issuers of the purchased annuities fail to perform under the terms of the annuities. The amount of unrecorded loss contingencies related to the purchased annuities was \$731,166 as of December 31, 2010.

## NOTES TO FINANCIAL STATEMENTS

- B. The Company does not have material structured settlements from life insurers for which the Company has not obtained a release of liability from the claimant.

### **Note 28 - Health Care Receivables**

Not applicable

### **Note 29 - Participating Policies**

Not applicable

### **Note 30 – Premium Deficiency Reserves**

1. Liability carried for premium deficiency reserves	\$0
2. Date of the most recent evaluation of this liability	12/31/2010
3. Was anticipated investment income utilized in the calculation?	Yes

### **Note 31- High Dollar Deductible Policies**

The Company does not have any high deductible policies.

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

For Workers Compensation, the Company discounts its reserves for unpaid losses using a tabular discount on the long-term annuity portion of certain workers compensation claims. The tabular discount is based on the Unit Statistical Plan tables as approved by the respective states at an annual discount rate of 4.0%. The December 31, 2010 liabilities subject to discount were carried at a value representing a discount of \$814,515 net of all reinsurance.

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

### **Note 33 - 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 collectability 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. These uncertainties cannot be reasonably estimated, but could have a material impact on the Company's future operating results and financial condition.

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 utilized questionable practices discovered in the Federal Silica Multi District Litigation. Court decisions in several key states have been favorable to defendants. More importantly, several states have enacted legislation in the past few years that contain medical criteria provisions aimed at reducing the number of lawsuits filed by unimpaired plaintiffs and providing prompt and fair compensation to those who meet the criteria.

#### *Uncertainty Regarding Reserving Methodologies*

As a result of the significant uncertainty inherent in determining a company's asbestos and environmental liabilities and establishing related reserves, the amount of reserves required to adequately fund the Company's asbestos and environmental claims cannot be accurately estimated using conventional reserving methodologies based upon historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations including managerial judgment. In that regard, the estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability, and the risks inherent in major litigation and other uncertainties, the Company

## NOTES TO FINANCIAL STATEMENTS

believes that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in an aggregate liability that differs from current reserves by an amount that could be material to the Companies' future operating results and financial condition.

In the third quarter of 2009, the Company completed its biennial ground-up asbestos reserve study. The study was completed by a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel, and it included all major segments of the Company's direct, assumed, and ceded asbestos claims. As part of the internal review, potential exposures of certain policyholders were individually evaluated using the Company's proprietary stochastic model, which is consistent with the latest published actuarial paper on asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, types of injury, state jurisdictions, legal defenses, and reinsurance potential. The remaining policyholders (those with less potential exposure) were evaluated using aggregate methods that utilized information and experience specific to these insureds. Between comprehensive studies, the Company monitors asbestos activity to determine whether or not any adjustment to reserves is warranted. The Company also completed its annual study on the environmental claims liability, resulting in immaterial adjustments to held reserves. During 2010 the Company monitored asbestos and environmental activity to determine whether or not any adjustment to reserves is warranted. Based on this review of actual emerged losses, no material adjustments were made.

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

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

The 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 26. Net reserves for asbestos and environmental are allocated based on the Company's Inter-company Reinsurance Agreement, as discussed in Note 26.

**Asbestos:**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Direct Basis</b>					
Beginning Reserves	889,895	1,028,885	970,641	1,004,294	939,601
Incurring losses and LAE	211,712	56,197	147,992	12,826	(78)
Calendar year payments	72,722	102,440	114,339	77,519	94,002
Ending Reserves	<u>1,028,885</u>	<u>982,642</u>	<u>1,004,294</u>	<u>939,601</u>	<u>845,521</u>

**Assumed Reinsurance Basis**

Beginning Reserves	655,044	646,158	798,033	683,111	951,649
Incurring losses and LAE	28,303	183,872	(27,116)	337,676	(335)
Calendar year payments	37,190	61,906	87,806	69,139	120,979
Ending Reserves	<u>646,157</u>	<u>768,124</u>	<u>683,111</u>	<u>951,648</u>	<u>830,335</u>

**Net of Ceded Reinsurance Basis**

Beginning Reserves	1,272,227	1,353,139	1,433,141	1,374,823	1,618,838
Incurring losses and LAE	180,743	198,522	72,253	381,258	762
Calendar year payments	99,831	136,832	130,571	137,243	195,684
Ending Reserves	<u>1,353,139</u>	<u>1,414,829</u>	<u>1,374,823</u>	<u>1,618,838</u>	<u>1,423,916</u>

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

Direct Basis	508,090
Assumed Reinsurance Basis	472,935
Net of Ceded Reinsurance Basis	911,321

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

Direct Basis	268,018
Assumed Reinsurance Basis	4,422
Net of Ceded Reinsurance Basis	222,363

**Environmental:**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Direct Basis</b>					
Beginning Reserves	1,204,339	1,173,353	1,115,601	953,081	811,867
Incurring losses and LAE	110,795	308,705	24,563	(41,371)	(4,342)
Calendar year payments	141,780	223,085	187,083	99,843	80,814
Ending Reserves	<u>1,173,354</u>	<u>1,258,973</u>	<u>953,081</u>	<u>811,867</u>	<u>726,711</u>

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**NOTES TO FINANCIAL STATEMENTS**


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**Assumed Reinsurance Basis**

Beginning Reserves	244,129	220,379	214,197	205,965	148,259
Incurred losses and LAE	4,856	3,219	12	(52,492)	2,729
Calendar year payments	28,606	5,620	8,244	5,214	15,319
Ending Reserves	220,379	217,978	205,965	148,259	135,669

**Net of Ceded Reinsurance Basis**

Beginning Reserves	1,318,154	1,227,371	1,227,309	1,046,725	837,359
Incurred losses and LAE	65,767	340,608	(21,611)	(110,611)	467
Calendar year payments	156,550	189,298	158,973	98,756	92,194
Ending Reserves	1,227,371	1,378,681	1,046,725	837,358	745,632

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

Direct Basis	424,050
Assumed Reinsurance Basis	83,739
Net of Ceded Reinsurance Basis	425,822

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

Direct Basis	177,042
Assumed Reinsurance Basis	669
Net of Ceded Reinsurance Basis	166,273

Upon entering the PIC Pool, effective January 1, 2008 (refer to Note 26), 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 34- Subscriber Savings Accounts**

The Company is not a reciprocal insurance company.

**Note 35 - Multiple Peril Crop Insurance**

Not applicable

**Note 36 – Financial Guarantee Insurance**

Not applicable

# GENERAL INTERROGATORIES

## PART 1 – COMMON INTERROGATORIES

### GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes  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? \_\_\_\_\_ Ohio \_\_\_\_\_
- 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: \_\_\_\_\_
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. \_\_\_\_\_ 12/31/2008 \_\_\_\_\_
- 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. \_\_\_\_\_ 12/31/2008 \_\_\_\_\_
- 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). \_\_\_\_\_ 05/28/2010 \_\_\_\_\_
- 3.4 By what department or departments?  
Ohio 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  
 .....

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

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

.....  
 .....  
 .....

10.3 Has the insurer been granted any exemptions to the audit committee requirements as allowed in Section 14H of the Annual Financial Reporting Model Regulation, or substantially similar state law or regulation? Yes [ ] No [X]

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

.....  
 .....  
 .....

## GENERAL INTERROGATORIES

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

10.6 If response to 10.5 is "yes," provide information related to this exemption:  
 .....  
 .....  
 .....

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

10.8 If the response to 10.7 is no or n/a, please explain:  
 .....  
 .....  
 .....

11. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?  
 Thomas E. Schadler, FCAS, MAAA  
 175 Berkeley Street Boston, MA 02116  
 Sr. Vice President & Chief Actuary of Liberty Mutual Agency Corporation  
 .....

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

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

12.2 If yes, provide explanation:  
 .....  
 .....  
 .....

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

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

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

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

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

14.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?  
 a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;  
 b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;  
 c. Compliance with applicable governmental laws, rules, and regulations;  
 d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and  
 e. Accountability for adherence to the code. Yes [X] No [ ]

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

## GENERAL INTERROGATORIES

- 14.2 Has the code of ethics for senior managers been amended? Yes  No
- 14.21 If the response to 14.2 is yes, provide information related to amendment(s).  
 During the 1st quarter, Liberty Mutual Group published several non-material changes to its Code of Business Ethics and Conduct designed to clarify existing Code provisions.  
 .....  
 .....
- 14.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes  No
- 14.31 If the response to 14.3 is yes, provide the nature of any waiver(s).  
 .....  
 .....

## BOARD OF DIRECTORS

15. 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
16. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes  No
17. 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

18. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? Yes  No
- 19.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- |   |    |   |  |
|---|----|---|--|
| 19.11 To directors or other officers              | \$ | 0 |  |
| 19.12 To stockholders not officers                | \$ | 0 |  |
| 19.13 Trustees, supreme or grand (Fraternal only) | \$ | 0 |  |
- 19.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):
- |   |    |   |  |
|---|----|---|--|
| 19.21 To directors or other officers              | \$ | 0 |  |
| 19.22 To stockholders not officers                | \$ | 0 |  |
| 19.23 Trustees, supreme or grand (Fraternal only) | \$ | 0 |  |
- 20.1 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
- 20.2 If yes, state the amount thereof at December 31 of the current year:
- |                            |    |   |  |
|----------------------------|----|---|--|
| 20.21 Rented from others   | \$ | 0 |  |
| 20.22 Borrowed from others | \$ | 0 |  |
| 20.23 Leased from others   | \$ | 0 |  |
| 20.24 Other                | \$ | 0 |  |
- 21.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes  No
- 21.2 If answer is yes:
- |  |    |   |  |
|--|----|---|--|
| 21.21 Amount paid as losses or risk adjustment | \$ | 0 |  |
| 21.22 Amount paid as expenses                  | \$ | 0 |  |
| 21.23 Other amounts paid                       | \$ | 0 |  |
- 22.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes  No
- 22.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ \_\_\_\_\_ 0

## GENERAL INTERROGATORIES

### INVESTMENT

- 23.1 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 23.3) Yes  No
- 23.2 If no, give full and complete information relating thereto:  
 .....  
 .....  
 .....
- 23.3 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 17 where this information is also provided)  
 Please reference Note 17B  
 .....  
 .....  
 .....
- 23.4 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
- 23.5 If answer to 23.4 is yes, report amount of collateral for conforming programs. \$ 3,070,699
- 23.6 If answer to 23.4 is no, report amount of collateral for other programs. \$ 0
- 23.7 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? Yes  No  N/A
- 23.8 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes  No  N/A
- 23.9 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities lending Agreement (MLSA) to conduct securities lending? Yes  No  N/A
- 24.1 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 20.1 and 23.3) Yes  No
- 24.2 If yes, state the amount thereof at December 31 of the current year:
- |  |       |  |                      |
|--|-------|--|----------------------|
|  | 24.21 | Subject to repurchase agreements                 | \$ <u>0</u>          |
|  | 24.22 | Subject to reverse repurchase agreements         | \$ <u>0</u>          |
|  | 24.23 | Subject to dollar repurchase agreements          | \$ <u>0</u>          |
|  | 24.24 | Subject to reverse dollar repurchase agreements  | \$ <u>0</u>          |
|  | 24.25 | Pledged as collateral                            | \$ <u>0</u>          |
|  | 24.26 | Placed under option agreements                   | \$ <u>0</u>          |
|  | 24.27 | Letter stock or securities restricted as to sale | \$ <u>0</u>          |
|  | 24.28 | On deposit with state or other regulatory body   | \$ <u>24,316,794</u> |
|  | 24.29 | Other  | \$ <u>0</u>          |
- 24.3 For category (24.27) provide the following:
- | 1<br>Nature of Restriction | 2<br>Description | 3<br>Amount |
|----------------------------|------------------|-------------|
| .....                      | .....            | 0           |
| .....                      | .....            | 0           |
| .....                      | .....            | 0           |
- 25.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes  No
- 25.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? If no, attach a description with this statement. Yes  No  N/A
- 26.1 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
- 26.2 If yes, state the amount thereof at December 31 of the current year. \$ 0

## GENERAL INTERROGATORIES

27. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes  No

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

1 Name of Custodian(s)	2 Custodian's Address
JP Morgan Chase	1 Chase Manhattan Plaza, New York, NY 10005

27.02 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)

27.03 Have there been any changes, including name changes, in the custodian(s) identified in 27.01 during the current year?

Yes  No

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

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

27.05 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, LLC	175 Berkeley Street, Boston, MA 02116
N/A	Liberty Mutual Group Inc.	175 Berkeley Street, Boston, MA 02116

28.1 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

28.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
		0
		0
		0
28.2999 TOTAL		0

28.3 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	

## GENERAL INTERROGATORIES

29. 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 (+)
29.1 Bonds	124,190,322	129,024,825	4,834,503
29.2 Preferred stocks	0	0	0
29.3 Totals	124,190,322	129,024,825	4,834,503

29.4 Describe the sources or methods utilized in determining the fair values:

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

30.1 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]

30.2 If the answer to 30.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source? Yes [ ] No [X]

30.3 If the answer to 30.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:

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 further reviewed by management on a monthly basis. All prices determined internally by the insurer are reviewed and signed off by the Chief Investment Officer.

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

31.2 If no, list exceptions:

### OTHER

32.1 Amount of payments to Trade associations, service organizations and statistical or Rating Bureaus, if any? \$ 0

32.2 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

33.1 Amount of payments for legal expenses, if any? \$ 20,488

33.2 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

34.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$ 1,464

## GENERAL INTERROGATORIES

34.2 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>0</u>	\$ <u>42,599</u>
2.2 Premium Denominator	\$ <u>61,885,080</u>	\$ <u>62,859,179</u>
2.3 Premium Ratio (2.1/2.2)	<u>0.00</u>	<u>0.00</u>
2.4 Reserve Numerator	\$ <u>302,371</u>	\$ <u>46,648</u>
2.5 Reserve Denominator	\$ <u>94,661,281</u>	\$ <u>101,073,052</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 \$ 1,219,454

3.22 Non-participating policies \$ 159,271,835

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 21C

.....

.....

.....



## 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 v10.0 from RMS and AIR Classic/2 v12.0. For workers' compensation, Liberty Mutual utilizes RiskLink v10.0 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 21C
- 6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? Yes  No
- 6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to uninsured catastrophic loss
- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes  No
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions. \_\_\_\_\_ 0
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes  No
- 8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? Yes  No
- 8.2 If yes, give full information
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:  
 (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;  
 (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;  
 (c) Aggregate stop loss reinsurance coverage;  
 (d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;  
 (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or  
 (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes  No
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:  
 (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or  
 (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract. Yes  No
- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:  
 (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;  
 (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and  
 (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 32 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:  
 (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or  
 (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? Yes  No
- 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 15.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- |   |  |    |         |
|---|--|----|---------|
| 12.11 Unpaid losses   |  | \$ | 247,028 |
| 12.12 Unpaid underwriting expenses (including loss adjustment expenses) |  | \$ | 30,884  |
- 12.2 Of the amount on Line 15.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? \$ 7,200
- 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   |  | _____ | 9.00 |
- 12.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium notes or promissory notes taken by a reporting 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          |  | \$ | 5,026,199 |
| 12.62 Collateral and other funds |  | \$ | 1,484,902 |
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ 2,159,100
- 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<br>Incurred | Direct Losses<br>Unpaid | Direct Written<br>Premium | Direct Premium<br>Unearned | Direct Premium<br>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]

Incurring 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
	2010	2009	2008	2007	2006
<b>Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 &amp; 3)</b>					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	93,218,544	100,841,461	120,535,300	79,550,516	69,701,262
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	28,051,828	30,705,014	31,285,924	22,553,289	21,279,639
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	95,771,615	99,678,782	116,464,513	85,823,504	72,964,713
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	6,706,345	7,087,960	8,255,687	860,358	772,836
5. Nonproportional reinsurance lines (Lines 31, 32 & 33)		1			
6. Total (Line 35)	223,748,332	238,313,218	276,541,424	188,787,667	164,718,450
<b>Net Premiums Written (Page 8, Part 1B, Col. 6)</b>					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	25,804,487	28,661,379	39,478,417		
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	12,405,818	13,302,248	11,247,162		
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	20,663,454	18,994,709	28,137,038		
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	4,383,283	4,891,558	5,869,099		
11. Nonproportional reinsurance lines (Lines 31, 32 & 33)		1			
12. Total (Line 35)	63,257,042	65,849,895	84,731,716		
<b>Statement of Income (Page 4)</b>					
13. Net underwriting gain (loss) (Line 8)	(889,309)	2,639,998	1,785,873	(300)	(300)
14. Net investment gain (loss) (Line 11)	4,734,346	5,414,634	5,888,812	1,857,302	1,614,041
15. Total other income (Line 15)	(491,198)	(107,569)	(844,389)		
16. Dividends to policyholders (Line 17)	(21,146)	268,950	390,474		
17. Federal and foreign income taxes incurred (Line 19)	734,750	2,750,937	6,478,560	490,623	597,302
18. Net income (Line 20)	2,640,235	4,927,176	(38,738)	1,366,379	1,016,439
<b>Balance Sheet Lines (Pages 2 and 3)</b>					
19. Total admitted assets excluding protected cell business (Page 2, Line 26, Col. 3)	173,018,676	165,385,565	157,231,383	37,032,712	38,961,733
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 15.1)	2,153,867	2,377,159	2,063,477		
20.2 Deferred and not yet due (Line 15.2)	17,322,522	16,878,992	15,926,912		
20.3 Accrued retrospective premiums (Line 15.3)	54,965	97,978	306,525		
21. Total liabilities excluding protected cell business (Page 3, Line 26)	128,662,689	123,552,504	121,454,258	1,344,639	1,138,819
22. Losses (Page 3, Line 1)	53,583,274	56,401,789	59,102,119		
23. Loss adjustment expenses (Page 3, Line 3)	11,959,061	13,428,273	13,533,773		
24. Unearned premiums (Page 3, Line 9)	29,118,946	27,606,805	25,294,731		
25. Capital paid up (Page 3, Lines 30 & 31)	3,500,001	3,374,043	3,374,043	3,374,043	3,374,043
26. Surplus as regards policyholders (Page 3, Line 37)	44,355,987	41,833,061	35,777,125	35,688,072	37,822,913
<b>Cash Flow (Page 5)</b>					
27. Net cash from operations (Line 11)	(7,936,199)	8,060,890	88,931,433	1,396,392	(1,056,313)
<b>Risk-Based Capital Analysis</b>					
28. Total adjusted capital	44,355,987	41,833,061	35,777,125	35,688,072	37,822,913
29. Authorized control level risk-based capital	5,716,015	5,833,995	5,802,527	2,853,849	2,831,532
<b>Percentage Distribution of Cash, Cash Equivalents and Invested Assets</b> (Page 2, Col. 3) (Item divided by Page 2, Line 12, Col. 3) x 100.0					
30. Bonds (Line 1)	91.6	92.0	87.4	92.3	88.1
31. Stocks (Lines 2.1 & 2.2)		1.0	0.8	3.5	3.3
32. Mortgage loans on real estate (Lines 3.1 and 3.2)					
33. Real estate (Lines 4.1, 4.2 & 4.3)					
34. Cash, cash equivalents and short-term investments (Line 5)	6.1	7.0	11.8	4.3	8.6
35. Contract loans (Line 6)					
36. Derivatives (Line 7)		X X X	X X X	X X X	X X X
37. Other invested assets (Line 8)					
38. Receivables for securities (Line 9)					
39. Securities lending reinvested collateral assets (Line 10)	2.3	X X X	X X X	X X X	X X X
40. Aggregate write-ins for invested assets (Line 11)					
41. Cash, cash equivalents and invested assets (Line 12)	100.0	100.0	100.0	100.0	100.0
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
42. Affiliated bonds, (Sch. D, Summary, Line 12, Col. 1)					
43. Affiliated preferred stocks (Sch. D, Summary, Line 18, Col. 1)					
44. Affiliated common stocks (Sch. D, Summary, Line 24, Col. 1)					
45. Affiliated short-term investments (subtotals included in Schedule DA Verification, Col. 5, Line 10)					
46. Affiliated mortgage loans on real estate					
47. All other affiliated					
48. Total of above Lines 42 to 47					
49. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 48 above divided by Page 3, Col. 1, Line 37 x 100.0)					

## FIVE – YEAR HISTORICAL DATA

(Continued)

	1	2	3	4	5
	2010	2009	2008	2007	2006
<b>Capital and Surplus Accounts (Page 4)</b>					
50. Net unrealized capital gains (losses) (Line 24)	17,258	139,133	(130,530)	(12,188)	
51. Dividends to stockholders (Line 35)			(3,568,807)	(3,500,000)	
52. Change in surplus as regards policyholders for the year (Line 38)	2,522,926	6,055,936	89,051	(2,134,841)	2,333,947
<b>Gross Losses Paid (Page 9, Part 2, Cols. 1 &amp; 2)</b>					
53. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	62,895,399	66,700,817	22,687,435	43,729,915	37,441,246
54. Property lines (Lines 1, 2, 9, 12, 21 & 26)	16,119,073	19,405,558	15,845,829	11,621,541	10,687,307
55. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	58,532,372	51,398,164	41,565,137	12,283,009	29,741,157
56. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	1,291,515	965,770	(784,028)	20,460,752	(1,895)
57. Nonproportional reinsurance lines (Lines 31, 32 & 33)	128,466	(1,115,953)	(7,387)		
58. Total (Line 35)	138,966,825	137,354,356	79,306,986	88,095,217	77,867,815
<b>Net Losses Paid (Page 9, Part 2, Col. 4)</b>					
59. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	19,127,604	17,351,097	(28,833,158)		
60. Property lines (Lines 1, 2, 9, 12, 21 & 26)	6,357,225	6,261,568	3,620,346		
61. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	11,012,679	11,391,290	(1,776,424)		
62. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	867,367	691,446	(782,453)		
63. Nonproportional reinsurance lines (Lines 31, 32 & 33)	128,466	(1,115,953)	(7,387)		
64. Total (Line 35)	37,493,341	34,579,448	(27,779,076)		
<b>Operating Percentages (Page 4)</b> (Item divided by Page 4, Line 1) x 100.0					
65. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
66. Losses incurred (Line 2)	56.0	50.7	52.4		
67. Loss expenses incurred (Line 3)	11.8	11.9	10.8		
68. Other underwriting expenses incurred (Line 4)	33.6	33.2	33.8		
69. Net underwriting gain (loss) (Line 8)	(1.4)	4.2	3.0		
<b>Other Percentages</b>					
70. 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)	33.6	31.9	24.9		
71. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	67.8	62.6	63.2		
72. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 35 divided by Page 3, Line 37, Col. 1 x 100.0)	142.6	157.4	236.8		
<b>One Year Loss Development (000 omitted)</b>					
73. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2-Summary, Line 12, Col. 11)	(718)	(4,629)	(5,329)		
74. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 73 above divided by Page 4, Line 21, Col. 1 x 100.0)	(1.7)	(12.9)	(14.9)		
<b>Two Year Loss Development (000 omitted)</b>					
75. 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)	(3,691)	(6,669)	(9,200)		
76. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 75 above divided by Page 4, Line 21, Col. 2 x 100.0)	(10.3)	(18.7)	(24.3)		

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	5	6	7	8	9			
				Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded			
1. Prior	X X X	X X X	X X X	830	84	230	6	50	8	20	1,012	X X X
2. 2001	50,305	3,123	47,182	32,212	2,252	2,377	128	3,941	124	1,786	36,026	X X X
3. 2002	54,701	5,378	49,323	30,073	2,976	2,253	207	3,869	190	1,771	32,822	X X X
4. 2003	59,719	4,988	54,731	29,097	2,507	2,021	147	4,369	200	1,799	32,633	X X X
5. 2004	64,268	3,546	60,722	29,822	1,196	1,837	66	4,285	89	2,255	34,593	X X X
6. 2005	66,953	2,712	64,241	30,362	1,203	1,894	71	4,491	65	2,131	35,408	X X X
7. 2006	66,864	2,986	63,878	30,013	676	1,755	82	4,510	96	1,819	35,424	X X X
8. 2007	68,246	3,333	64,913	29,714	651	1,539	70	4,453	59	1,874	34,926	X X X
9. 2008	68,112	2,532	65,580	31,709	951	1,242	59	4,894	44	1,658	36,791	X X X
10. 2009	63,904	3,997	59,907	23,991	1,653	657	76	4,188	29	1,420	27,078	X X X
11. 2010	63,163	1,277	61,886	17,207	82	251	5	3,893	3	868	21,261	X X X
12. Totals	X X X	X X X	X X X	285,030	14,231	16,056	917	42,943	907	17,401	327,974	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	14	15	16	17	18	19	20	21	22			
	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded			
1. Prior	7,146	2,534	4,249	513	258	58	823	98	660	15	225	9,918	X X X
2. 2001	684	118	195	49	11		87	8	49	1	31	850	X X X
3. 2002	799	148	207	42	17	2	86	7	54	1	34	963	X X X
4. 2003	631	134	275	35	18		127	6	63	1	40	938	X X X
5. 2004	756	160	437	45	18		141	7	68	1	112	1,207	X X X
6. 2005	1,004	87	543	62	34		242	11	102	1	135	1,764	X X X
7. 2006	1,744	103	636	113	50		375	22	164	1	301	2,730	X X X
8. 2007	3,068	86	1,101	187	89		595	28	305	1	242	4,856	X X X
9. 2008	4,368	68	2,481	318	145		1,097	57	438	2	558	8,084	X X X
10. 2009	6,072	143	4,329	295	129	5	1,516	88	739	1	812	12,253	X X X
11. 2010	9,590	53	8,650	86	101		2,134	6	1,644		1,330	21,974	X X X
12. Totals	35,862	3,634	23,103	1,745	870	65	7,223	338	4,286	25	3,820	65,537	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	27	28	29	30	31	32	33		35	36
	Direct and Assumed	Ceded	Net	Direct and Assumed	Ceded	Net	Loss	Loss Expense		Losses Unpaid	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	8,348	1,570
2. 2001	39,556	2,680	36,876	78.632	85.815	78.157			0.600	712	138
3. 2002	37,358	3,573	33,785	68.295	66.437	68.497			0.600	816	147
4. 2003	36,601	3,030	33,571	61.289	60.746	61.338			0.600	737	201
5. 2004	37,364	1,564	35,800	58.138	44.106	58.957			0.600	988	219
6. 2005	38,672	1,500	37,172	57.760	55.310	57.863			0.600	1,398	366
7. 2006	39,247	1,093	38,154	58.697	36.604	59.729			0.600	2,164	566
8. 2007	40,864	1,082	39,782	59.878	32.463	61.285			0.600	3,896	960
9. 2008	46,374	1,499	44,875	68.085	59.202	68.428			0.600	6,463	1,621
10. 2009	41,621	2,290	39,331	65.131	57.293	65.653			0.600	9,963	2,290
11. 2010	43,470	235	43,235	68.822	18.403	69.862			0.600	18,101	3,873
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	53,586	11,951

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
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	One Year	Two Year
1. Prior	30,413	31,658	33,594	33,838	34,870	35,403	35,629	35,174	36,551	37,346	795	2,172
2. 2001	32,947	32,770	32,990	33,092	33,108	32,997	33,154	32,867	33,102	33,065	(37)	198
3. 2002	XXX	31,584	31,423	31,139	30,481	30,371	30,125	29,923	30,106	30,100	(6)	177
4. 2003	XXX	XXX	31,108	30,538	29,777	29,624	29,828	29,599	29,490	29,374	(116)	(225)
5. 2004	XXX	XXX	XXX	34,985	34,136	33,692	32,226	32,030	31,660	31,579	(81)	(451)
6. 2005	XXX	XXX	XXX	XXX	36,508	35,119	33,382	33,170	32,766	32,681	(85)	(489)
7. 2006	XXX	XXX	XXX	XXX	XXX	35,929	35,196	34,277	33,511	33,619	108	(658)
8. 2007	XXX	XXX	XXX	XXX	XXX	XXX	38,511	37,490	35,146	35,127	(19)	(2,363)
9. 2008	XXX	XXX	XXX	XXX	XXX	XXX	XXX	41,683	39,788	39,631	(157)	(2,052)
10. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	35,584	34,464	(1,120)	XXX
11. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	37,716	XXX	XXX
											12. Totals	
											(718)	(3,691)

**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
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		
1. Prior	000	9,375	15,324	18,980	21,528	23,359	24,730	25,900	26,667	27,637	XXX	XXX
2. 2001	16,337	23,646	27,018	29,162	30,362	31,073	31,488	31,835	32,037	32,209	XXX	XXX
3. 2002	XXX	14,394	21,070	24,249	26,470	27,605	28,263	28,679	28,903	29,143	XXX	XXX
4. 2003	XXX	XXX	14,525	20,916	23,980	25,979	27,329	27,918	28,273	28,464	XXX	XXX
5. 2004	XXX	XXX	XXX	15,070	22,632	26,159	28,254	29,491	30,103	30,397	XXX	XXX
6. 2005	XXX	XXX	XXX	XXX	15,428	22,908	26,489	28,817	30,275	30,982	XXX	XXX
7. 2006	XXX	XXX	XXX	XXX	XXX	15,712	23,344	26,667	29,350	31,010	XXX	XXX
8. 2007	XXX	XXX	XXX	XXX	XXX	XXX	16,327	24,252	27,893	30,532	XXX	XXX
9. 2008	XXX	XXX	XXX	XXX	XXX	XXX	XXX	18,931	27,994	31,941	XXX	XXX
10. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	15,813	22,919	XXX	XXX
11. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	17,371	XXX	XXX

**SCHEDULE P – PART 4 – SUMMARY**

Years in Which Losses Were Incurred	Bulk and IBNR Reserves On Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)									
	1	2	3	4	5	6	7	8	9	10
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Prior	11,138	8,395	7,585	5,886	5,269	4,795	4,234	4,191	4,626	4,897
2. 2001	7,595	3,565	1,984	1,443	1,026	908	622	493	441	274
3. 2002	XXX	9,592	4,876	2,776	1,603	1,176	797	528	489	291
4. 2003	XXX	XXX	8,699	4,332	2,477	1,716	1,249	915	622	395
5. 2004	XXX	XXX	XXX	10,922	5,435	3,589	1,935	1,423	770	568
6. 2005	XXX	XXX	XXX	XXX	12,200	6,067	3,068	1,902	1,083	748
7. 2006	XXX	XXX	XXX	XXX	XXX	11,004	5,540	3,378	1,627	918
8. 2007	XXX	XXX	XXX	XXX	XXX	XXX	11,377	5,935	2,796	1,524
9. 2008	XXX	XXX	XXX	XXX	XXX	XXX	XXX	12,371	5,443	3,245
10. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	10,844	5,492
11. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	10,707

## SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN Allocated By States and Territories

States, Etc.	1	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4	5	6	7	8	9
		2	3						
	Active Status	Direct Premiums Written	Direct Premiums Earned	Dividends Paid or Credited to Policyholders on Direct Business	Direct Losses Paid (Deducting Salvage)	Direct Losses Incurred	Direct Losses Unpaid	Finance and Service Charges Not Included in Premiums	Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
1. Alabama	AL	L	2,572,619	2,830,394		1,343,069	2,045,425	1,983,354	15,518
2. Alaska	AK	L	2,382,966	1,869,679		126,016	310,622	585,404	14,374
3. Arizona	AZ	L	1,388,692	1,840,129		1,725,673	2,409,992	2,136,337	8,377
4. Arkansas	AR	L	452,625	556,949		1,453,671	307,784	733,093	2,730
5. California	CA	L	2,755,422	2,225,255		752,827	(188,011)	18,817,556	16,621
6. Colorado	CO	L	704,312	914,894		332,901	(132,415)	614,680	4,248
7. Connecticut	CT	L	5,930,033	6,567,517		3,889,699	4,178,458	11,011,519	35,770
8. Delaware	DE	L	213,037	230,049		203,271	921,381	1,621,197	1,285
9. District of Columbia	DC	L	425,682	655,979		298,508	500,382	961,096	2,568
10. Florida	FL	L	7,254,822	7,347,585		5,034,836	6,159,599	6,908,203	43,761
11. Georgia	GA	L	1,791,787	1,790,501		515,542	637,567	950,987	10,808
12. Hawaii	HI	N							
13. Idaho	ID	L	2,037,409	2,551,607		444,192	680,711	740,069	12,290
14. Illinois	IL	L	3,234,913	3,625,430		3,368,849	2,996,265	5,134,872	19,513
15. Indiana	IN	L	2,198,233	2,456,332		954,447	719,620	794,491	13,260
16. Iowa	IA	L	139,439	159,147		105,062	35,366	1,162,420	841
17. Kansas	KS	L	516,360	568,220		188,001	409,255	467,706	3,115
18. Kentucky	KY	L	13,042,790	13,001,921		6,294,915	7,501,936	8,918,863	78,674
19. Louisiana	LA	L	1,387,125	1,358,884		808,794	1,063,694	1,145,144	8,367
20. Maine	ME	N							
21. Maryland	MD	L	7,684,716	8,323,504	2,605	5,459,998	5,169,924	15,999,112	46,354
22. Massachusetts	MA	L	1,524,395	1,673,497		1,746,515	1,148,255	2,827,804	9,195
23. Michigan	MI	L	1,912,733	2,186,747		4,015,737	252,957	2,403,774	11,538
24. Minnesota	MN	L	360,604	533,454		482,523	137,814	1,221,557	2,175
25. Mississippi	MS	L	3,709,242	4,169,758		1,008,664	1,483,393	1,968,435	22,374
26. Missouri	MO	L	1,735,256	1,775,481		771,145	(1,594,413)	1,427,882	10,467
27. Montana	MT	L	892,293	901,394		854,449	1,816,379	1,045,314	5,382
28. Nebraska	NE	L	163,090	167,877	2,674	892,946	960,556	185,508	984
29. Nevada	NV	L	135,101	141,314		26,085	9,273	38,354	815
30. New Hampshire	NH	N	1,721	1,721					10
31. New Jersey	NJ	L	14,097,302	14,303,966	101,376	7,514,891	10,638,652	25,316,193	85,035
32. New Mexico	NM	L	935,838	1,091,053		319,334	704,137	1,084,400	5,645
33. New York	NY	L	5,253,054	5,420,192		2,590,551	4,577,027	9,493,207	31,686
34. North Carolina	NC	L	6,068,760	5,531,137		5,180,460	13,384,781	16,397,519	36,607
35. North Dakota	ND	L	166,789	139,587		50,597	89,555	62,919	1,006
36. Ohio	OH	L	6,342,744	7,093,234		3,523,801	4,308,511	3,993,105	38,259
37. Oklahoma	OK	L	4,211,252	4,341,372		4,265,279	5,051,621	2,656,534	25,402
38. Oregon	OR	L	6,497,771	6,586,852		1,992,358	2,940,209	2,751,171	39,194
39. Pennsylvania	PA	L	20,660,930	22,668,270		18,138,825	15,240,755	52,097,149	124,626
40. Rhode Island	RI	L	19,319	19,046			1,072	1,721	117
41. South Carolina	SC	L	2,417,363	1,941,000		3,840,009	2,866,499	4,173,227	14,581
42. South Dakota	SD	L	90,856	96,190		53,626	13,645	16,045	548
43. Tennessee	TN	L	2,729,230	2,817,130		664,062	932,499	2,727,283	16,463
44. Texas	TX	L	3,356,318	3,473,391		1,308,199	771,308	2,044,673	20,245
45. Utah	UT	L	1,220,223	1,434,054		688,947	894,592	975,436	7,360
46. Vermont	VT	N							
47. Virginia	VA	L	3,283,342	3,516,272		2,266,392	3,007,964	4,857,992	19,805
48. Washington	WA	L	13,495,257	14,863,388		3,762,025	5,490,833	7,069,020	81,403
49. West Virginia	WV	L	1,661,413	1,670,436		762,504	854,057	848,020	10,022
50. Wisconsin	WI	L	1,083,544	1,201,419	119,911	1,328,036	582,887	1,920,610	6,536
51. Wyoming	WY	L	352,569	316,753		125,246	(5,063)	149,092	2,127
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)	47	160,491,291	168,949,961	226,566	101,473,477	112,287,310	230,440,047	968,081

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							

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

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

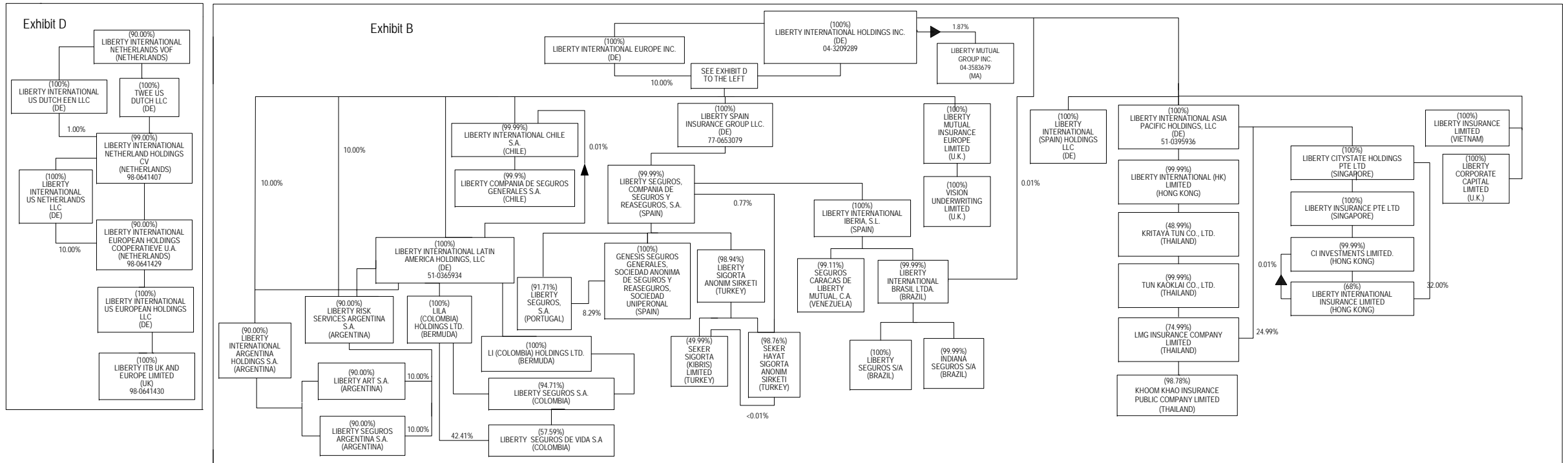
(a) Insert the number of L responses except for Canada and Other Alien.



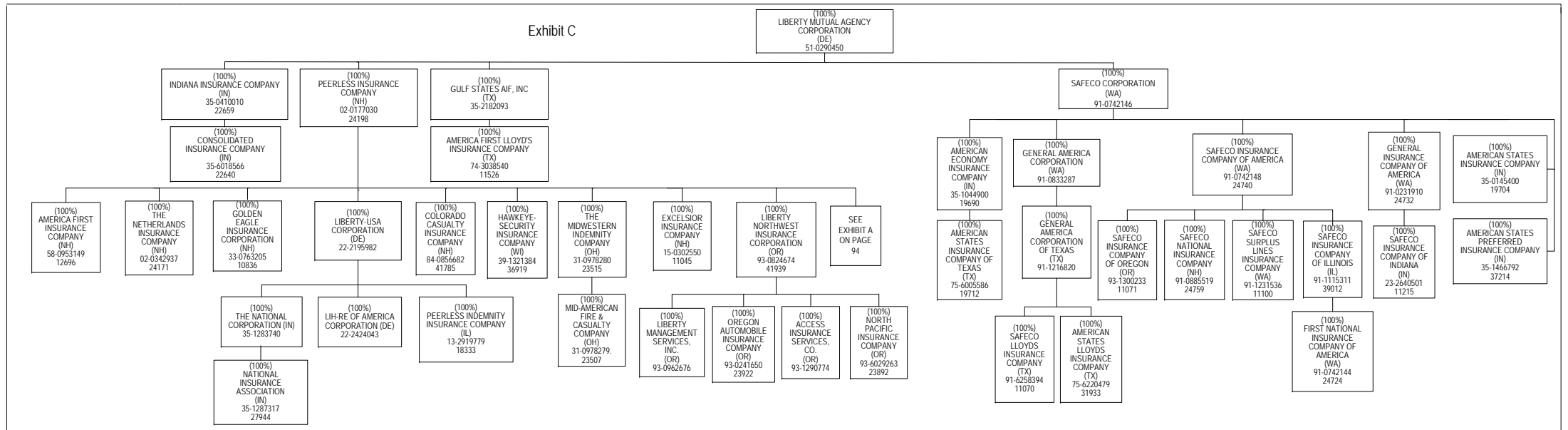


# SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

## PART 1 - ORGANIZATIONAL CHART



94.1



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**OVERFLOW PAGE FOR WRITE-INS**


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**Page 3 - Continuation**

	1	2
<b>REMAINING WRITE-INS AGGREGATED AT LINE 25 FOR LIABILITIES</b>	Current Year	Prior Year
2504. Amounts held under uninsured plans .....	64,565	435,018
2505. Private passenger auto escrow .....	6,421	9,807
2506. Collateral held for securities loaned .....		1,107,498
2597. Totals (Lines 2504 through 2596) (Page 3, Line 2598)	70,986	1,552,323

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