

ANNUAL STATEMENT

OF THE

FIRST NATIONAL INSURANCE COMPANY OF AMERICA

of SEATTLE

in the state of WASHINGTON

TO THE

Insurance Department

OF THE

FOR THE YEAR ENDED

December 31, 2011

PROPERTY AND CASUALTY

2011



24724201120100100

ANNUAL STATEMENT

For the Year Ended December 31, 2011
OF THE CONDITION AND AFFAIRS OF THE

First National Insurance Company of America

NAIC Group Code 0111 0111 **NAIC Company Code** 24724 **Employer's ID Number** 91-0742144
(Current Period) (Prior Period)

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

Country of Domicile United States of America

Incorporated/Organized October 10, 1928 **Commenced Business** November 1, 1928

Statutory Home Office 1001 Fourth Avenue, Safeco Plaza, Seattle, WA 98154
(Street and Number) (City or Town, State and Zip Code)

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

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

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

Internet Web Site Address WWW.SAFECO.COM

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

OFFICERS

Chairman of the Board
James Paul Condrin, III #

	Name	Title
1.	<u>James Paul Condrin, III #</u>	<u>President and Chief Executive Officer</u>
2.	<u>Dexter Robert Legg</u>	<u>Secretary</u>
3.	<u>James Paul McKenney #</u>	<u>Treasurer and Chief Financial Officer</u>

VICE-PRESIDENTS

Name	Title	Name	Title
<u>Anthony Alexander Fontanes</u>	<u>EVP and Chief Investment Officer</u>	<u>Michael Joseph Fallon #</u>	<u>Executive Vice President</u>

DIRECTORS OR TRUSTEES

<u>James Paul Condrin, III #</u>	<u>John Derek Doyle</u>	<u>Michael Joseph Fallon</u>	<u>Dexter Robert Legg #</u>
<u>Christopher Charles Mansfield</u>	<u>James Paul McKenney #</u>		

State of Massachusetts

County of Suffolk ss

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

<u>(Signature)</u>	<u>(Signature)</u>	<u>(Signature)</u>
<u>James Paul Condrin, III #</u>	<u>Dexter Robert Legg</u>	<u>James Paul McKenney #</u>
<u>(Printed Name)</u>	<u>(Printed Name)</u>	<u>(Printed Name)</u>
<u>1.</u>	<u>2.</u>	<u>3.</u>
<u>President and Chief Executive Officer</u>	<u>Secretary</u>	<u>Treasurer and Chief Financial Officer</u>
<u>(Title)</u>	<u>(Title)</u>	<u>(Title)</u>

Subscribed and sworn to (or affirmed) before me on this
23rd day of January, 2012, by

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

ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D)	149,196,407		149,196,407	145,440,382
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks	12,430		12,430	12,430
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 (\$ 0, Schedule E - Part 1), cash equivalents (\$ 0, Schedule E - Part 2), and short-term investments (\$ 5,374,632, Schedule DA)	5,374,632		5,374,632	7,613,079
6. Contract loans (including \$ 0 premium notes)				
7. Derivatives (Schedule DB)				
8. Other invested assets (Schedule BA)				
9. Receivables for securities	397,384		397,384	92
10. Securities lending reinvested collateral assets (Schedule DL)	763,830		763,830	223,450
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Lines 1 to 11)	155,744,683		155,744,683	153,289,433
13. Title plants less \$ 0 charged off (for Title insurers only)				
14. Investment income due and accrued	1,344,941		1,344,941	1,344,284
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection	3,619,929	414,187	3,205,742	2,871,824
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 50,111 earned but unbilled premiums)	24,128,598	5,011	24,123,587	23,096,696
15.3 Accrued retrospective premiums	41,041	4,100	36,941	73,287
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers	18,390,493		18,390,493	14,341,378
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	197,364		197,364	
18.2 Net deferred tax asset	6,203,000	1,619,058	4,583,942	4,432,235
19. Guaranty funds receivable or on deposit	96,186		96,186	135,175
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	3,231,549		3,231,549	6,016,591
24. Health care (\$ 0) and other amounts receivable				
25. Aggregate write-ins for other than invested assets	781,049	96,694	684,355	700,921
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	213,778,833	2,139,050	211,639,783	206,301,824
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28. Total (Lines 26 and 27)	213,778,833	2,139,050	211,639,783	206,301,824

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	472,501		472,501	465,063
2502. Equities and deposits in pools and associations	209,561		209,561	211,624
2503. Other assets	98,987	96,694	2,293	24,234
2598. Summary of remaining write-ins for Line 25 from overflow page				
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	781,049	96,694	684,355	700,921

LIABILITIES, SURPLUS AND OTHER FUNDS

	1	2
	Current Year	Prior Year
1. Losses (Part 2A, Line 35, Column 8)	72,114,971	71,444,366
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	5,382,769	4,793,732
3. Loss adjustment expenses (Part 2A, Line 35, Column 9)	15,945,906	15,945,414
4. Commissions payable, contingent commissions and other similar charges	2,245,230	2,157,891
5. Other expenses (excluding taxes, licenses and fees)	1,257,139	631,554
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	593,548	721,657
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))		256,893
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 \$ 135,727,831 and including warranty reserves of \$ 0 and accrued accident and health experience rating refunds including \$ 0 for medical loss ratio rebate per the Public Health Service Act)	40,312,976	38,825,262
10. Advance premium	275,180	263,145
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders	11,039	7,499
12. Ceded reinsurance premiums payable (net of ceding commissions)	21,680,781	20,226,508
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	79,129	74,563
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	2,848,592	2,618,626
19. Payable to parent, subsidiaries and affiliates	111,719	715,611
20. Derivatives		
21. Payable for securities		
22. Payable for securities lending	763,830	223,450
23. Liability for amounts held under uninsured plans		
24. Capital notes \$ 0 and interest thereon \$ 0		
25. Aggregate write-ins for liabilities	1,329,144	1,370,340
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	164,951,953	160,276,511
27. Protected cell liabilities		
28. Total liabilities (Lines 26 and 27)	164,951,953	160,276,511
29. Aggregate write-ins for special surplus funds	979,557	1,014,134
30. Common capital stock	5,000,000	5,000,000
31. Preferred capital stock		
32. Aggregate write-ins for other than special surplus funds		
33. Surplus notes		
34. Gross paid in and contributed surplus	581,836	581,836
35. Unassigned funds (surplus)	40,126,437	39,429,343
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)	46,687,830	46,025,313
38. Totals (Page 2, Line 28, Col. 3)	211,639,783	206,301,824

DETAILS OF WRITE-IN LINES		
2501. Retroactive reinsurance reserves	709,640	763,208
2502. Other liabilities	576,411	415,091
2503. Amounts held under uninsured plans	43,093	86,086
2598. Summary of remaining write-ins for Line 25 from overflow page		105,955
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	1,329,144	1,370,340
2901. SSAP 10R incremental change	811,378	841,102
2902. Special surplus from retroactive reinsurance	168,179	173,032
2903.		
2998. Summary of remaining write-ins for Line 29 from overflow page		
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)	979,557	1,014,134
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
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 35, Column 4)	83,769,925	82,513,440
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 35, Column 7)	51,826,817	46,233,101
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	10,120,037	9,740,817
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	27,008,087	27,729,780
5. Aggregate write-ins for underwriting deductions	(8,562)	(4,514)
6. Total underwriting deductions (Lines 2 through 5)	88,946,379	83,699,184
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	(5,176,454)	(1,185,744)
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	5,010,027	5,862,756
10. Net realized capital gains (losses) less capital gains tax of \$ 111,857 (Exhibit of Capital Gains (Losses))	207,735	878,477
11. Net investment gain (loss) (Lines 9 + 10)	5,217,762	6,741,233
OTHER INCOME		
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ 2,967 amount charged off \$ 190,205)	(187,238)	(346,712)
13. Finance and service charges not included in premiums	707,267	728,105
14. Aggregate write-ins for miscellaneous income	(268,631)	(1,034,151)
15. Total other income (Lines 12 through 14)	251,398	(652,758)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	292,706	4,902,731
17. Dividends to policyholders	168,226	(28,194)
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)	124,480	4,930,925
19. Federal and foreign income taxes incurred	(317,857)	(156,376)
20. Net income (Line 18 minus Line 19) (to Line 22)	442,337	5,087,301
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	46,025,313	80,665,460
22. Net income (from Line 20)	442,337	5,087,301
23. Net transfers (to) from Protected Cell accounts		
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ 21,369	39,685	82,970
25. Change in net unrealized foreign exchange capital gain (loss)		
26. Change in net deferred income tax	1,241,769	(887,374)
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 28, Col. 3)	(1,095,655)	779,009
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	64,105	
32. Capital changes:		
32.1 Paid in		
32.2 Transferred from surplus (Stock Dividend)		
32.3 Transferred to surplus		
33. Surplus adjustments:		
33.1 Paid in		
33.2 Transferred to capital (Stock Dividend)		
33.3 Transferred from capital		
34. Net remittances from or (to) Home Office		
35. Dividends to stockholders		(40,000,000)
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	(29,724)	297,947
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	662,517	(34,640,147)
39. Surplus as regards policyholders, December 31 current year (Lines 21 plus Line 38) (Page 3, Line 37)	46,687,830	46,025,313

DETAILS OF WRITE-IN LINES		
0501. Private passenger auto escrow	(8,562)	(4,514)
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)	(8,562)	(4,514)
1401. Retroactive reinsurance gain/(loss)	(17,077)	(1,021,822)
1402. Other income/(expense)	(251,554)	(12,329)
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page		
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	(268,631)	(1,034,151)
3701. Other changes in surplus		(48,642)
3702. SSAP 10R incremental change	(29,724)	346,589
3703.		
3798. Summary of remaining write-ins for Line 37 from overflow page		
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)	(29,724)	297,947

CASH FLOW

Cash from Operations	1 Current Year	2 Prior Year
1. Premiums collected net of reinsurance	85,350,941	86,462,395
2. Net investment income	5,683,844	7,332,362
3. Miscellaneous income	223,587	(1,221,360)
4. Total (Lines 1 through 3)	91,258,372	92,573,397
5. Benefit and loss related payments	54,386,324	50,918,635
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	36,478,711	41,281,692
8. Dividends paid to policyholders	164,687	32,227
9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)	248,257	630,853
10. Total (Lines 5 through 9)	91,277,979	92,863,407
11. Net cash from operations (Line 4 minus Line 10)	(19,607)	(290,010)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	24,179,979	85,258,596
12.2 Stocks		8,966,682
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets	7,510,268	
12.6 Net gains (or losses) on cash, cash equivalents and short-term investments		
12.7 Miscellaneous proceeds	(397,291)	3,616
12.8 Total investment proceeds (Lines 12.1 to 12.7)	31,292,956	94,228,894
13. Cost of investments acquired (long-term only):		
13.1 Bonds	28,229,832	52,650,401
13.2 Stocks		
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets	8,050,648	223,450
13.6 Miscellaneous applications		
13.7 Total investments acquired (Lines 13.1 to 13.6)	36,280,480	52,873,851
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)	(4,987,524)	41,355,043
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes		
16.2 Capital and paid in surplus, less treasury stock		
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders		40,000,000
16.6 Other cash provided (applied)	2,768,684	(15,859,861)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	2,768,684	(55,859,861)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	(2,238,447)	(14,794,828)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	7,613,079	22,407,907
19.2 End of year (Line 18 plus Line 19.1)	5,374,632	7,613,079

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

20.0001	12.1 - Proceeds from investments sold, matured or repaid - Bonds	30,054,293
20.0002	12.2 - Proceeds from investments sold, matured or repaid - Stocks	8,966,682
20.0003	16.5 - Dividends to stockholders	32,800,603

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	1,614,615	797,901	851,907	1,560,609
2. Allied lines	1,340,381	662,523	728,147	1,274,757
3. Farmowners multiple peril	667,023	310,499	334,569	642,953
4. Homeowners multiple peril	13,362,513	6,407,660	7,107,113	12,663,060
5. Commercial multiple peril	14,923,664	7,593,965	7,485,032	15,032,597
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine	1,351,037	651,016	651,899	1,350,154
10. Financial guaranty				
11.1 Medical professional liability—occurrence	5,884	2,891	2,329	6,446
11.2 Medical professional liability—claims-made	795	334	366	763
12. Earthquake	281,796	139,083	145,595	275,284
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health				
16. Workers' compensation	7,073,309	3,043,974	2,748,958	7,368,325
17.1 Other liability—occurrence	4,270,396	2,136,151	2,090,934	4,315,613
17.2 Other liability—claims-made	181,701	85,505	81,720	185,486
17.3 Excess workers' compensation				
18.1 Products liability—occurrence	104,608	59,545	52,847	111,306
18.2 Products liability—claims-made				
19.1,19.2 Private passenger auto liability	15,401,464	5,674,320	6,295,112	14,780,672
19.3,19.4 Commercial auto liability	6,532,832	3,269,094	3,157,384	6,644,542
21. Auto physical damage	11,960,320	4,676,550	5,084,362	11,552,508
22. Aircraft (all perils)				
23. Fidelity	51,534	42,818	42,063	52,289
24. Surety	5,939,594	3,486,506	3,476,917	5,949,183
26. Burglary and theft	2,244	1,193	1,120	2,317
27. Boiler and machinery	869	662	474	1,057
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	85,066,579	39,042,190	40,338,848	83,769,921

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	851,907				851,907
2. Allied lines	728,147				728,147
3. Farmowners multiple peril	334,569				334,569
4. Homeowners multiple peril	7,107,113				7,107,113
5. Commercial multiple peril	7,456,513	56	28,012	451	7,485,032
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	650,256	1,643			651,899
10. Financial guaranty					
11.1 Medical professional liability—occurrence	2,329				2,329
11.2 Medical professional liability—claims-made	365	1			366
12. Earthquake	145,595				145,595
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	2,759,625		30,374	(41,041)	2,748,958
17.1 Other liability—occurrence	2,074,563	8,433	8,389	(451)	2,090,934
17.2 Other liability—claims-made	80,729	952	38		81,719
17.3 Excess workers' compensation					
18.1 Products liability—occurrence	52,750		97		52,847
18.2 Products liability—claims-made					
19.1,19.2 Private passenger auto liability	6,295,112				6,295,112
19.3,19.4 Commercial auto liability	3,133,340	24,044			3,157,384
21. Auto physical damage	5,080,373	3,989			5,084,362
22. Aircraft (all perils)					
23. Fidelity	14,874	27,189			42,063
24. Surety	2,390,798	1,086,118			3,476,916
26. Burglary and theft	1,120				1,120
27. Boiler and machinery	474				474
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	39,160,552	1,152,425	66,910	(41,041)	40,338,846
36. Accrued retrospective premiums based on experience					41,041
37. Earned but unbilled premiums					(66,911)
38. Balance (Sum of Lines 35 through 37)					40,312,976

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	1,986,752	1,614,615		1,986,752		1,614,615
2. Allied lines	2,199,383	1,340,381		2,199,383		1,340,381
3. Farmowners multiple peril		667,023				667,023
4. Homeowners multiple peril	72,282,895	13,362,513		72,282,895		13,362,513
5. Commercial multiple peril	33,743,128	14,923,664		33,743,128		14,923,664
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	2,524,792	1,351,037		2,524,792		1,351,037
10. Financial guaranty						
11.1 Medical professional liability--occurrence		5,884				5,884
11.2 Medical professional liability--claims-made		795				795
12. Earthquake	90,185	281,796		90,185		281,796
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	9,536,787	7,073,309		9,536,787		7,073,309
17.1 Other liability—occurrence	8,701,040	4,270,396		8,701,040		4,270,396
17.2 Other liability—claims-made	531,099	181,701		531,099		181,701
17.3 Excess workers' compensation						
18.1 Products liability—occurrence	951,960	104,608		951,960		104,608
18.2 Products liability—claims-made						
19.1,19.2 Private passenger auto liability	81,864,702	15,401,464		81,864,702		15,401,464
19.3,19.4 Commercial auto liability	11,946,143	6,532,832		11,946,143		6,532,832
21. Auto physical damage	45,866,982	11,960,320		45,866,982		11,960,320
22. Aircraft (all perils)						
23. Fidelity	26,269	51,534		26,269		51,534
24. Surety	30,975,225	5,939,594		30,975,225		5,939,594
26. Burglary and theft	5,039	2,244		5,039		2,244
27. Boiler and machinery	69,791	869		69,791		869
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	303,302,172	85,066,579		303,302,172		85,066,579

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	163,953	172,107	163,953	172,107	78,974	96,774	78,974	268,881	22,315
2. Allied lines	360,370	214,714	360,370	214,714	27,462	22,173	27,462	236,887	14,239
3. Farmowners multiple peril		133,632		133,632		1,660		135,292	44,001
4. Homeowners multiple peril	17,810,730	2,512,040	17,810,730	2,512,040	3,927,825	1,302,370	3,927,825	3,814,410	588,361
5. Commercial multiple peril	20,490,705	9,074,777	20,490,705	9,074,777	13,332,122	5,789,076	13,332,122	14,863,853	6,095,944
6. Mortgage guaranty									
8. Ocean marine		227		227		(34)		193	
9. Inland marine	243,425	86,355	243,425	86,355	48,284	(4,897)	48,284	81,458	13,278
10. Financial guaranty									
11.1 Medical professional liability—occurrence		3,151		3,151		18,391		21,542	11,079
11.2 Medical professional liability—claims-made						4,233		4,233	1,196
12. Earthquake		13		13				13	134
13. Group accident and health								(a)	(20)
14. Credit accident and health (group and individual)									
15. Other accident and health		81,602		81,602		289,781		(a)	371,383
16. Workers' compensation	32,554,543	14,857,331	32,554,543	14,857,331	16,068,115	8,724,233	16,068,115	23,581,564	2,799,884
17.1 Other liability—occurrence	5,581,839	2,669,746	5,581,839	2,669,746	8,257,002	4,188,529	8,257,002	6,858,275	1,940,626
17.2 Other liability—claims-made	7,105	117,452	7,105	117,452		169,302	175,260	286,754	187,138
17.3 Excess workers' compensation									3
18.1 Products liability—occurrence	436,500	188,454	436,500	188,454	500,885	68,458	500,885	256,912	93,583
18.2 Products liability—claims-made									
19.1,19.2 Private passenger auto liability	35,498,420	9,202,730	35,498,420	9,202,730	7,887,715	1,524,859	7,887,715	10,727,589	2,088,669
19.3,19.4 Commercial auto liability	15,270,525	4,837,667	15,270,525	4,837,667	6,976,556	2,681,471	6,976,556	7,519,138	1,143,830
21. Auto physical damage	336,662	223,058	336,662	223,058	763,087	207,375	763,087	430,433	77,760
22. Aircraft (all perils)		3,689		3,689		16		3,705	
23. Fidelity	1,768	3,569	1,768	3,569	(4,288)	13,389	(4,288)	16,958	6,129
24. Surety	(5,700,173)	(605,798)	(5,700,173)	(605,798)	9,101,162	1,656,902	9,101,162	1,051,104	724,337
26. Burglary and theft		2		2		21		23	105
27. Boiler and machinery		(580)		(580)	583	(111)	583	(691)	301
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	673,776		673,776	X X X	911,285		1,585,061	43,549
33. Reinsurance-nonproportional assumed financial lines	X X X				X X X				
34. Aggregate write-ins for other lines of business									
35. TOTALS	123,056,372	44,449,714	123,056,372	44,449,714	67,140,744	27,665,256	67,140,744	72,114,970	15,945,907

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	12,496,811			12,496,811
1.2 Reinsurance assumed	3,929,962			3,929,962
1.3 Reinsurance ceded	12,496,811			12,496,811
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	3,929,962			3,929,962
2. Commission and brokerage:				
2.1 Direct, excluding contingent		48,542,186		48,542,186
2.2 Reinsurance assumed, excluding contingent		12,651,354		12,651,354
2.3 Reinsurance ceded, excluding contingent		48,542,186		48,542,186
2.4 Contingent—direct		963,773		963,773
2.5 Contingent—reinsurance assumed		1,184,655		1,184,655
2.6 Contingent—reinsurance ceded		963,773		963,773
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)		13,836,009		13,836,009
3. Allowances to manager and agents	620	4,558		5,178
4. Advertising	56,693	649,594	2,639	708,926
5. Boards, bureaus and associations	12,501	175,175	76	187,752
6. Surveys and underwriting reports	950	519,415	1,878	522,243
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries	3,599,725	4,568,383	169,637	8,337,745
8.2 Payroll taxes	98,074	517,553	5,697	621,324
9. Employee relations and welfare	524,803	1,841,519	21,712	2,388,034
10. Insurance	273,456	73,688	3,124	350,268
11. Directors' fees	11	16		27
12. Travel and travel items	260,316	341,975	5,759	608,050
13. Rent and rent items	161,285	585,382	6,966	753,633
14. Equipment	129,536	315,764	3,779	449,079
15. Cost or depreciation of EDP equipment and software	31,798	294,746	8,068	334,612
16. Printing and stationery	56,487	71,780	725	128,992
17. Postage, telephone and telegraph, exchange and express	343,190	281,173	7,863	632,226
18. Legal and auditing	17,138	54,535	11,540	83,213
19. Totals (Lines 3 to 18)	5,566,583	10,295,256	249,463	16,111,302
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 26,078		1,880,972		1,880,972
20.2 Insurance department licenses and fees		236,462		236,462
20.3 Gross guaranty association assessments		15,191		15,191
20.4 All other (excluding federal and foreign income and real estate)		166,622		166,622
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		2,299,247		2,299,247
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	623,489	577,576	48,448	1,249,513
25. Total expenses incurred	10,120,034	27,008,088	297,911	(a) 37,426,033
26. Less unpaid expenses—current year	15,945,906	4,095,917		20,041,823
27. Add unpaid expenses—prior year	15,945,414	3,511,102		19,456,516
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)	10,119,542	26,423,273	297,911	36,840,726

DETAILS OF WRITE-IN LINES				
2401. Other expenses	623,489	577,576	48,448	1,249,513
2402.				
2403.				
2498. Sum of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	623,489	577,576	48,448	1,249,513

(a) Includes management fees of \$ 867,196 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) 1,310,320	1,321,336
1.1 Bonds exempt from U.S. tax	(a) 2,318,243	2,202,570
1.2 Other bonds (unaffiliated)	(a) 1,655,308	1,760,844
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	755	755
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) 7,677	7,456
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income	14,976	14,976
10. Total gross investment income	5,307,279	5,307,937
11. Investment expenses		(g) 297,910
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)		297,910
17. Net investment income (Line 10 minus Line 16)		5,010,027

DETAILS OF WRITE-IN LINES		
0901. Miscellaneous Income/(Expense)	14,976	14,976
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)	14,976	14,976
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 \$ 259,713 accrual of discount less \$ 934,187 amortization of premium and less \$ 125,874 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	(2,989)		(2,989)		
1.1 Bonds exempt from U.S. tax	74,586		74,586		
1.2 Other bonds (unaffiliated)	252,830	(4,835)	247,995	61,054	
1.3 Bonds of affiliates					
2.1 Preferred stocks (unaffiliated)					
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)	324,427	(4,835)	319,592	61,054	

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 (Schedule DB)			
8. Other invested assets (Schedule BA)			
9. Receivables for securities			
10. Securities lending reinvested collateral assets (Schedule DL)			
11. Aggregate write-ins for invested assets			
12. Subtotals, cash and invested assets (Lines 1 to 11)			
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	414,187	346,461	(67,726)
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,011	536	(4,475)
15.3 Accrued retrospective premiums	4,100	8,130	4,030
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	1,619,058	550,365	(1,068,693)
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	96,694	108,180	11,486
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	2,139,050	1,013,672	(1,125,378)
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
28. Total (Lines 26 and 27)	2,139,050	1,013,672	(1,125,378)

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	96,694	108,180	11,486
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)	96,694	108,180	11,486

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

- A. The accompanying financial statements of First National Insurance Company of America (the "Company") have been prepared on the basis of accounting practices prescribed or permitted by the Washington Insurance Department.

The state of Washington requires insurance companies domiciled in the state of Washington to prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the Washington Insurance Department.

There are no differences between the Washington prescribed or permitted practices and NAIC statutory accounting practices that resulted in a difference for the Company.

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

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

- C. Accounting Policies

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

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

1. Short term investments are carried at cost, adjusted where appropriate for amortization of premium or discount, or fair value as specified by the Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO Manual).
2. Bonds are carried at cost, adjusted where appropriate for amortization of premium or discount, or fair value as specified by the SVO Manual.
3. Common stocks are carried at fair value, except that investments in stocks of subsidiaries, controlled and affiliated ("SCA") companies are carried according to Note 1C(7).
4. Preferred stocks are carried at cost or fair value as specified by the SVO Manual. Preferred stocks of SCA companies are carried according to Note 1C(7).
5. Mortgage loans are carried at unpaid principal balances, less impairments as specified by the SVO Manual.
6. Mortgage backed/asset backed securities are carried at amortized cost or fair value based on guidance in the SVO Manual. Prepayment assumptions for mortgage backed/asset backed securities are updated monthly using the Bloomberg data service. The retrospective adjustment method is used to value all mortgage backed/asset backed securities.
7. Investments in SCA companies are carried in accordance with SSAP No. 97, *Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 88*, 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 2011.
13. The Company has no pharmaceutical rebate receivables.

Note 2 - Accounting Changes and Correction of Errors

- A. The Company adopted SSAP No. 35R, *Guaranty Fund and Other Assessments*, effective January 1, 2011. The cumulative effect of adopting SSAP No. 35R is reported in the Capital and Surplus Account and is not considered material.

NOTES TO FINANCIAL STATEMENTS

The Company adopted SSAP No. 5R, *Liabilities, Contingencies and Impairments of Assets*, effective December 31, 2011. The adoption of SSAP No. 5R has no impact on the Company.

Note 3 - Business Combinations and Goodwill

A. Statutory Purchase Method

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

B. Statutory Mergers

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

C. Impairment Loss

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

Note 4 - Discontinued Operations

The Company has no discontinued operations.

Note 5 - Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans

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. Loan-Backed Securities

1. Prepayment speed assumptions are updated monthly with data sourced from the Bloomberg data service.
2. All Loan-Backed Securities with a recognized other-than-temporary impairment disclosed in the aggregate during 2011 as of December 31, 2011: None.
3. Each Loan-Backed Security with a recognized other-than-temporary impairment held by the Company at December 31, 2011:

1	2	3	4	5	6	7
CUSIP	Book/Adj Carrying Value Amortized cost before current period OTTI	Projected Cash Flows	Recognized other-than- temporary impairment	Amortized cost after other-than- temporary impairment	Fair Value at time of OTTI	Date of Financial Statement Where Report
59023XA2	190,852	166,940	23,912	166,940	166,940	3/31/2009
59023XA2	126,559	109,847	16,712	109,847	109,846	12/31/2009
59023XA2	83,715	81,726	1,989	81,726	78,235	3/31/2010
59023XA2	56,931	56,406	526	56,406	39,101	9/30/2011
59023XA2	52,030	47,720	4,309	47,720	37,823	12/31/2011
61749BAB9	199,179	189,194	9,985	189,194	189,193	12/31/2009
61749BAB9	166,411	164,941	1,470	164,941	161,764	3/31/2010
61749BAB9	134,328	133,677	651	133,677	124,211	12/31/2010

4. All impaired Loan-Backed Securities for which an other-than-temporary impairment has not been recognized in earnings as a realized loss as of December 31, 2011:

	1	2
	Less Than 12 Months	12 Months or Longer
Gross Unrealized Loss	-	(92,520)
Fair Value of Securities with Unrealized Losses	-	858,393

NOTES TO FINANCIAL STATEMENTS

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

E. Repurchase Agreements and Securities Lending

1. The Company did not enter into any repurchase agreements during the year. Refer to Note 17B for the policy on requiring collateral related to securities lending.
2. The Company has not pledged any of its assets as collateral as of December 31, 2011.
3. Aggregate Amount of Contractually open cash collateral positions:

Aging of Collateral	Total Fair Value
Open	\$ 763,830
30 Days or Less	-
31 to 60 Days	-
61 to 90 Days	-
Greater than 90 Days	-
Sub-Total	763,830
Securities Received	2,652,265
Total Collateral Received	\$ 3,416,095

4. Securities Lending Transactions Administered by an Affiliated Agent

The Company's security lending transactions are not administered by an affiliate agent.

5. Collateral Reinvestment

- a. Aggregate Amount Cash Collateral Reinvested

	Amortized Cost	Fair Value
Open	\$ -	\$ -
30 Days or Less	189,251	189,252
31 to 60 Days	373,577	373,583
61 to 90 Days	201,070	201,082
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	763,898	763,917
Securities Received	-	-
Total Collateral Reinvested	\$763,898	\$763,917

- b. The reporting entity's sources of cash that it uses to return the cash collateral is dependent on the liquidity of the current market conditions. Under current conditions, the reporting entity could liquidate all or a portion of its cash collateral reinvestment securities in order to meet the collateral calls that could come due under a worst-case scenario.

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.

NOTES TO FINANCIAL STATEMENTS

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, 2011.

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, 2011			December 31, 2010			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	7,252,587	52,413	7,305,000	6,551,718	226,732	6,778,450	700,869	(174,319)	526,550
Statutory Valuation Allowance Adjustment	-	-	-	-	-	-	-	-	-
Adjusted Gross Deferred Tax Assets	7,252,587	52,413	7,305,000	6,551,718	226,732	6,778,450	700,869	(174,319)	526,550
Deferred Tax Liabilities	(781,050)	(320,950)	(1,102,000)	(1,645,783)	(150,067)	(1,795,850)	864,733	(170,883)	693,850
Net DTA (DTL)	6,471,537	(268,537)	6,203,000	4,905,935	76,665	4,982,600	1,565,602	(345,202)	1,220,400
Deferred Tax Assets Nonadmitted	(1,619,058)	-	(1,619,058)	(550,365)	-	(550,365)	(1,068,693)	-	(1,068,693)
Net Admitted DTA (DTL)	4,852,479	(268,537)	4,583,942	4,355,570	76,665	4,432,235	496,909	(345,202)	151,707

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 Company does not utilize tax planning strategies.

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

	December 31, 2011			December 31, 2010			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.)	-	-	-	2,722,285	76,665	2,798,950	(2,722,285)	(76,665)	(2,798,950)
Lesser of:									
Expected to be recognized within one year (10bi.)	3,772,564	-	3,772,564	792,183	-	792,183	2,980,381	-	2,980,381
10% of adjusted capital and surplus (10bii.)			4,055,283			3,946,718			
Adj. gross DTAs offset against existing DTLs (10c.)	781,050	320,950	1,102,000	1,645,783	150,067	1,795,850	(864,733)	170,883	(693,850)
Total	4,553,614	320,950	4,874,564	5,160,251	226,732	5,386,983	(606,637)	94,218	(512,419)

NOTES TO FINANCIAL STATEMENTS

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

	December 31, 2011			December 31, 2010			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.)	-	-	-	2,722,285	76,665	2,798,950	(2,722,285)	(76,665)	(2,798,950)
Lesser of:									
Expected to be recognized within three years (10eii.)	4,583,942	-	4,583,942	1,633,285	-	1,633,285	2,950,657	-	2,950,657
15% of adjusted capital and surplus (10eib.)			6,082,925			5,920,077			
Adj. gross DTAs offset against existing DTLs (10eiii.)	781,050	320,950	1,102,000	1,645,783	150,067	1,795,850	(864,733)	170,883	(693,850)
Total	5,364,992	320,950	5,685,942	6,001,353	226,732	6,228,085	(636,361)	94,218	(542,143)

Used in SSAP No. 10R, Paragraph 10.d.	December 31, 2011	December 31, 2010	Change
Total Adjusted Capital	45,876,452	45,184,211	692,241
Authorized Control Level	7,586,908	7,675,601	(88,693)

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

	December 31, 2011			December 31, 2010			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	4,041,101	(268,537)	3,772,564	3,514,468	76,665	3,591,133	526,633	(345,202)	181,431
Admitted Assets			211,639,783			206,301,824			
Adjusted Statutory Surplus*			40,552,831			39,467,179			
Total Adjusted Capital from DTAs	4,041,101	(268,537)	3,772,564	3,514,468	76,665	3,591,133	526,633	(345,202)	181,431

*As reported on the statutory balance sheet for the most recently filed statement with the domiciliary state commissioner adjusted in accordance with SSAP No.10R, Paragraph 10bii

Increase due to SSAP No. 10R, Paragraph 10.e.	December 31, 2011			December 31, 2010			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	811,378	-	811,378	841,102	-	841,102	(29,724)	-	(29,724)
Admitted Assets	811,378	-	811,378	841,102	-	841,102	(29,724)	-	(29,724)
Adjusted Statutory Surplus	811,378	-	811,378	841,102	-	841,102	(29,724)	-	(29,724)

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:

	2011	2010
Federal	(317,857)	(156,376)
Foreign	-	-
Realized capital gains	111,857	473,026
Federal and foreign income taxes incurred	(206,000)	316,650

The Company's DTAs and DTLs result primarily from limits on unearned premium reserves, discounting of unpaid losses and LAE reserves, net operating loss carry-forward, and accrual of market discount on owned securities.

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

	2011
Change in net deferred income tax (without unrealized gain or loss)	1,241,769
Change in tax effect of unrealized (gains) losses	(21,369)
Total change in net deferred income tax	1,220,400

D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of tax-exempt interest, net operating losses generated in 2011 and discounting of unpaid losses and LAE reserves.

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

NOTES TO FINANCIAL STATEMENTS

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

Year Generated	Amount	Expiration
2011	1,449,000	2031

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. (Dissolved 10/24/2011)	Liberty Mutual Holding Company Inc.
AMBCO Capital Corporation	Liberty Mutual Insurance Company
America First Insurance Company	Liberty Mutual Personal Insurance Company
America First Lloyds Insurance Company	Liberty Northwest Insurance Corporation
American Economy Insurance Company	Liberty Personal Insurance Company
American Fire & Casualty Company	Liberty RE (Bermuda) Limited
American States Insurance Company	Liberty Sponsored Insurance (Vermont) Inc.
American States Insurance Company of Texas	Liberty Surplus Insurance Corporation
American States Lloyds Insurance Company	LIH-RE of America Corporation
American States Preferred Insurance Company	LIU Specialty Insurance Agency Inc.
Barrier Ridge LLC	LM General Insurance Company
Berkeley Holding Company Associates, Inc.	LM Insurance Corporation
Berkeley Management Corporation	LM Property & Casualty Insurance Company
Bridgefield Casualty Insurance Company	LMHC Massachusetts Holdings Inc.
Bridgefield Employers Insurance Company	LRE Properties, Inc.
Capitol Court Corporation	Mid-American Fire & Casualty Company
Capitol Agency, Inc., The (Arizona corporation) (Dissolved 1/20/2011)	North Pacific Insurance Company
Cascade Disability Management, Inc.	OCASCO Budget, Inc.
Colorado Casualty Insurance Company	OCI Printing, Inc.
Commercial Aviation Insurance, Inc.	Ohio Casualty Corporation
Consolidated Insurance Company	Ohio Security Insurance Company
Copley Venture Capital, Inc.	Open Seas Solutions, Inc.
Diversified Settlements, Inc.	Oregon Automobile Insurance Company
Emerald City Insurance Agency, Inc.	Peerless Indemnity Insurance Company
Employers Insurance Company of Wausau	Peerless Insurance Company
Excelsior Insurance Company	Pilot Insurance Services, Inc.
F.B. Beattie & Co., Inc.	Rianoc Research Corporation
First National Insurance Company of America	S.C. Bellevue, Inc.
First State Agency Inc.	SAFECARE Company, Inc.
General America Corporation	Safeco Corporation
General America Corporation of Texas	Safeco General Agency, Inc.
General Insurance Company of America	Safeco Insurance Company of America
Golden Eagle Insurance Corporation	Safeco Insurance Company of Illinois
Gulf States AIF, Inc.	Safeco Insurance Company of Indiana
Hawkeye-Security Insurance Company	Safeco Insurance Company of Oregon
Heritage-Summit HealthCare, Inc.	Safeco Lloyds Insurance Company
Indiana Insurance Company	Safeco National Insurance Company
Insurance Company of Illinois	Safeco Properties, Inc.
LEXCO Limited	Safeco Surplus Lines Insurance Company
Liberty-USA Corporation	San Diego Insurance Company
Liberty Assignment Corporation	SCIT, Inc.
Liberty Energy Canada, Inc.	St. James Insurance Company Ltd.
Liberty Financial Services, Inc.	Summit Consulting, Inc.
Liberty Hospitality Group, Inc.	Summit Consulting, Inc. of Louisiana
Liberty Insurance Corporation	Summit Holding Southeast, Inc.
Liberty Insurance Holdings, Inc.	The First Liberty Insurance Corporation
Liberty Insurance Underwriters Inc.*	The Midwestern Indemnity Company
Liberty International Europe Inc.	The National Corporation
Liberty International Holdings Inc.	The Netherlands Insurance Company
Liberty Life Assurance Company of Boston	The Ohio Casualty Insurance Company
Liberty Life Holdings Inc.	Wausau Business Insurance Company
Liberty Lloyds of Texas Insurance Company	Wausau General Insurance Company
Liberty Management Services, Inc.	Wausau Underwriters Insurance Company
Liberty Mexico Holdings Inc.	West American Insurance Company
Liberty Mutual Agency Corporation	Winmar Company, Inc.
Liberty Mutual Fire Insurance Company	Winmar of the Desert, Inc.
	Winmar Oregon, Inc.

NOTES TO FINANCIAL STATEMENTS

Liberty Mutual Group Asset Management Inc.**
Liberty Mutual Group Inc.

Winmar-Metro, Inc.

* Merged with and into LM Personal Insurance Company and LM Personal Insurance Company changed its name to Liberty Insurance Underwriters Inc. on January 3, 2011.

** This company joined the consolidated group in 2011 and its activity from the date it joined the group is included in the consolidated return.

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

Note 10 - Information Concerning Parent, Subsidiaries and Affiliates

- A. All of the outstanding shares of capital stock of the Company are held by Safeco Insurance Company of Illinois ("SICIL"), an Illinois insurance company. SICIL is wholly owned by Safeco Insurance Company of America, a Washington insurance company. Safeco Insurance Company of America is wholly owned by Safeco Corporation, an insurance holding company incorporated in Washington. Safeco Corporation is wholly owned by Liberty Mutual Agency Corporation, an insurance holding company incorporated in Delaware. Liberty Mutual Agency Corporation is wholly owned by Liberty Insurance Holdings, Inc., an insurance holding company incorporated in Delaware. Liberty Insurance Holdings, Inc. is wholly owned by Liberty Mutual Insurance Company ("LMIC"), a Massachusetts insurance company. The ultimate parent of LMIC is Liberty Mutual Holding Company Inc., a Massachusetts company.
- B. Transactions between the Company and its affiliates are listed on Schedule Y Part 2.
- C. There have been no material transactions with the Company's affiliates during 2011.
- D. At December 31, 2011, the Company reported a net \$3,119,830 due from affiliates. In general, the terms of the intercompany arrangements require settlement at least quarterly.
- E. The Company has not made any guarantees or initiated any undertakings, written or otherwise for the benefit of affiliates.
- F. Refer to Note 26 for information regarding the Amended and Restated Reinsurance Pooling Agreement.

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

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

The Company is a party to an Amended and Restated Short Term Borrowing Agreement with Safeco Corporation and affiliates.

The Company is party to a Federal Tax Sharing Agreement between LMHC 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.
- J. The Company does not hold any investments in subsidiary, controlled or affiliated entities, as such no impairments were recognized.
- K. The Company does not hold any investments in foreign insurance subsidiaries.
- L. The Company does not hold any investments in downstream non-insurance holding companies.

Note 11 - Debt

- A. Debt (Including Capital Notes)

The Company has no debt, including capital notes.

- B. Federal Home Loan Bank Agreements

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

1. The Company has 20,000 shares authorized, issued and outstanding as of December 31, 2011. All shares have a stated par value of \$250.
2. Preferred Stock
Not applicable
3. There are no dividend restrictions.
4. The Company did not pay any dividends to its parent during 2011.
5. The maximum amount of dividends that can be paid to shareholders by Washington-domiciled insurance companies without prior approval of the Insurance Commissioner is the greater of (a) 10% of surplus, subject to the availability of accumulated undistributed earnings, or (b) net income. The maximum dividend payout that may be made without prior approval in 2012 is \$4,668,783.
6. As of December 31, 2011, the Company has restricted surplus of \$811,378 from recording the increase in admitted deferred tax assets as a result of applying the revised guidance in SSAP No. 10R, *Income Taxes*, and pre-tax restricted surplus of \$168,179 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 2011 and from the adoption of the revised guidance on calculating admitted deferred tax assets in SSAP 10R.
10. The portion of unassigned funds (surplus) represented by cumulative net unrealized losses is \$(12,752) after applicable deferred taxes of \$4,463.
11. Surplus Notes
Not applicable
12. Quasi-reorganization (dollar impact)
Not applicable
13. Quasi-reorganization (effective date)
Not applicable

Note 14 - Contingencies

- A. Contingent Commitments
 1. The Company has made no commitments or contingent commitments on behalf of affiliates.
 2. The Company has made no guarantees on behalf of its affiliates.
- B. Assessments

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

The Company has accrued a liability for guaranty funds and other assessments of \$326,599 that is offset by future premium tax credits of \$41,975. Current assessments are expected to be paid out in the next two years, while premium tax offsets are expected to be realized in the next eleven years, beginning in 2012. During 2011 there were no material insolvencies to report. The Company continues to remit payments relating to prior year insolvencies.

NOTES TO FINANCIAL STATEMENTS

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

a. Assets recognized from paid and accrued premium tax offsets and policy surcharges prior year-end	\$ 66,677
b. Decreases current year: Premium tax offset applied	24,703
c. Increases current year: Premium tax offset increase	-
d. Assets recognized from paid and accrued premium tax offsets and policy surcharges current year-end	\$ 41,974

C. Gain Contingencies

Not applicable

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

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

	Direct
Claims related ECO and bad faith losses paid during the reporting period	\$4,111,570

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

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

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

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

E. Product Warranties

The Company does not write product warranty business.

F. All Other Contingencies

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

As disclosed in Note 9 F, the Company is a member of a controlled group for federal income tax purposes, and that group includes 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.

The Company refunded all premium and interest held in an escrow fund to certain of its policyholders in accordance with North Carolina General Statutes § 58-36-25(b). These distributions represented the full disposition of the Company's escrow fund.

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.

NOTES TO FINANCIAL STATEMENTS

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

Year(s)	<u>Sale</u> <u>Lease-back</u>	<u>All Other</u> <u>Operating</u> <u>Lease</u> <u>Arrangements</u>
2012	\$ 45,380	\$ 322,374
2013	45,380	321,184
2014	3,782	298,101
2015	-	232,416
2016	-	211,417
2017 & thereafter	-	260,498
Total	<u>\$ 94,542</u>	<u>\$ 1,645,989</u>

The amount of liability the Company recognized in its financial statements for lease agreements for which it is no longer using the leased property benefits is \$114,264.

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. The market value of the loaned securities is monitored and additional collateral is obtained if the market value of the collateral falls below 102% of the market value of the loaned securities. Additionally, the lending agent indemnifies the Company against borrower defaults. Cash collateral is carried as an asset with an offsetting liability on the balance sheet, as the collateral is unrestricted and the Company can exercise discretion as to how the collateral is invested. The loaned securities remain a recorded asset of the Company.

At December 31, 2011 the total fair value of securities on loan was \$3,349,296, with corresponding collateral value of \$3,416,095 of which \$763,830 represents cash collateral.

C. Wash Sales

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

Note 18 - Gain or Loss from Uninsured 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 2011, the Company recorded net CEA administrative fees of \$ 9,162 .

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts

Not applicable

NOTES TO FINANCIAL STATEMENTS

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

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

Note 20 - Fair Value Measurements

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

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

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

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

- Level 1 — Valuations based on unadjusted observable quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 — Valuations based on directly or indirectly observable inputs (other than Level 1 prices) at the measurement date, such as quoted prices in active markets or prices in markets that are not active for similar assets or liabilities or other inputs that are observable.
- Level 3 — Valuations based on inputs that are unobservable and reflect the Company's own assumptions about the assumptions that market participants might use.

The following table summarizes the Company's assets and liabilities that are measured at fair value at December 31, 2011:

1	2	3	4	5
Description	Level 1	Level 2	Level 3	Total
Assets at fair value				
Bonds				
Residential Mortgage-Backed Securities	-	\$ 287,966	-	\$ 287,966
Total Bonds	-	\$ 287,966	-	\$ 287,966
Preferred Stocks	-	-	-	-
Common Stocks				
Industrial and Miscellaneous	-	-	\$ 12,430	\$ 12,430
Total Common Stocks	-	-	\$ 12,430	\$ 12,430
Total assets at fair value	-	\$ 287,966	\$ 12,430	\$ 300,396
Liabilities at fair value	-	-	-	-
Total liabilities at fair value	\$ 0	\$ 0	\$ 0	\$ 0

The Company did not have significant transfers between Levels 1 and 2 during the period ended December 31, 2011.

2. Rollforward of Level 3 Items

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

1	2	3	4	5	6	7	8	9	10	11
	Balance at 12/31/2010	Transfers into Level 3	Transfers out of Level 3	Total gains and (losses) included in Net Income	Total gains and (losses) included in Surplus	Purchases	Issuances	Sales	Settlements	Balance at 12/31/2011
Bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Preferred Stock	-	-	-	-	-	-	-	-	-	-
Common Stock	12,430	-	-	-	-	-	-	-	-	12,430
Total	\$ 12,430	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,430

3. Policy on Transfers Into and Out of Level 3

Transfers in and/or out of Level 3 are due to re-evaluation of the observability of pricing inputs.

NOTES TO FINANCIAL STATEMENTS

4. Inputs and Techniques Used for Fair Value

Fixed Maturities

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

U.S. government and agency

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

Mortgage-Backed Securities

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

Asset-Backed Securities

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

Municipals

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

Corporate debt and other

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

Foreign government securities

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

Equity Securities

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

NOTES TO FINANCIAL STATEMENTS

Other Investments

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

5. Derivative Fair Values

Not applicable

B. Other Fair Value Disclosures

Not applicable

C. Reasons Not Practical to Estimate Fair Value

Not applicable

Note 21 - Other Items

A. Extraordinary Items

The Company has no extraordinary items to report.

B. Troubled Debt Restructuring: Debtors

Not applicable

C. Other Disclosures

1) Assets in the amount of \$28,446,945 and \$41,719,603 as of December 31, 2011 and 2010, respectively, were on deposit with government authorities or trustees as required by law.

2) Interrogatory 6.2

The Company employs industry recognized catastrophe modeling software to estimate the Probable Maximum Loss. For property exposures, the Company employs RiskLink v11.0 from RMS and AIR Clasic/2 v12.0. For workers compensation, Liberty Mutual utilizes RiskLink v11.0 from RMS.

Interrogatory 6.3

In 2011, the Company ceded 100% of its business to Peerless Insurance Company and had the benefit, together with its affiliates that cede business to the Peerless Insurance Company or that are members of the intercompany reinsurance pool of which Peerless Insurance Company is the lead company, of traditional prop cat excess of loss reinsurance with limits of \$742,500,000,000 part of \$825,000,000 xs \$500,000,000 purchased by Peerless Insurance Company and covering Peerless' 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.

F. State Transferable and Non-transferable Tax Credits

The Company does not hold state transferable and/or non-transferable tax credits.

G. Subprime-Mortgage-Related Risk Exposure

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

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

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

<u>Actual Cost</u>	<u>Book Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Other-Than-Temporary Impairments Recognized</u>
\$144,354	\$146,044	\$139,248	\$59,554

NOTES TO FINANCIAL STATEMENTS

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

Note 22 - Events Subsequent

- A. The Company evaluated subsequent events through February 24, 2012, the date the financial statements were available to be issued.

Effective January 13, 2012, with the approval of the appropriate state insurance departments, the Company re-domesticated from Washington to New Hampshire.

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, 2011.

	Assumed Reinsurance		Ceded Reinsurance		Net Reinsurance	
	UEP	Commission Equity	UEP	Commission Equity	UEP	Commission Equity
Affiliates	\$ 40,312,976	\$ 6,046,946	\$ 135,727,831	\$20,359,175	\$ (95,414,855)	\$ (14,312,228)
All Other	-	-	-	-	-	-
Total	\$ 40,312,976	\$ 6,046,946	\$ 135,727,831	\$20,359,175	\$ (95,414,855)	\$ (14,312,228)

Direct Unearned Premium Reserve: \$ 135,727,831

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, 2011 are as follows:

Description	Direct	Assumed	Ceded	Net
Contingent commissions	\$ -	\$ 2,230,784	\$ -	\$ 2,230,784
Sliding scale adjustments	-	-	-	-
Other profit commissions	-	-	-	-
Totals	\$ -	\$ 2,230,784	\$ -	\$ 2,230,784

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	\$ 3,798,533	-
	2. Adjustments – Prior Year(s)	(3,035,325)	-
	3. Adjustments – Current Year	(53,568)	-
	4. Total	\$ 709,640	-
b.	Consideration Paid or Received:		
	1. Initial	\$ 3,125,779	-
	2. Adjustments – Prior Year(s)	119,143	-
	3. Adjustments – Current Year	-	-
	4. Total	\$ 3,244,923	-
c.	Amounts Recovered / Paid – Cumulative:		
	1. Initial		

NOTES TO FINANCIAL STATEMENTS

	2. Adjustments – Prior Year(s)	\$ 3,843,890	-
	3. Adjustments – Current Year	58,334	-
	4. Total	\$ 3,902,224	-
d.	Special Surplus from Retroactive Reinsurance:		
	1. Initial Surplus Gain or Loss	\$ (789,863)	-
	2. Adjustments – Prior Year(s)	(689,422)	-
	3. Adjustments – Current Year	(4,767)	-
	4. Current Year Special Surplus	168,179	-
	5. Cumulative Total Transferred to Unassigned Funds	\$ (1,652,231)	-
e.	All cedents and reinsurers included in the above transactions:		
	Peerless Insurance Company	\$ 709,640	-
	Total	\$ 709,640	-

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, 2011.

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

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

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.
- D. Medical Loss Ratio Rebates

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

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

a.	Total accrued retro premium	\$41,041
b.	Unsecured amount	
c.	Less: Nonadmitted amount (10%)	4,100
d.	Less: Nonadmitted for any person for whom agents' balances or uncollected premiums are nonadmitted	
e.	Admitted amount (a) - (c) - (d)	\$36,941

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 \$2,344,841 during 2011. This decrease was primarily the result of updated reserving analysis and improving loss trends in the Commercial Multiple Peril \$1,002,038, Other Liability \$882,948, Fidelity/Surety \$709,946, and Private Passenger Auto Liability / Medical \$638,566 lines. This was partially offset by deteriorating loss trends in the Workers Compensation \$893,465 line. Prior estimates are revised as additional information becomes known regarding individual claims.

NOTES TO FINANCIAL STATEMENTS

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
			<u>100.0%</u>	
100% Quota Share Affiliated Companies:	Liberty Northwest Insurance Corporation ("LNW")	41939	0.00%	All Lines
	North Pacific Insurance Company ("NPIC")	23892	0.00%	All Lines
	Oregon Automobile Insurance Company ("OAIC")	23922	0.00%	All Lines
	Liberty Mutual Mid-Atlantic Insurance Company ("LMMAIC")	14486	0.00%	All Lines

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

- (a) Each Affiliated Pool Company cedes its net underwriting activity to the Lead Company. Each 100% Quota Share Affiliated Company cedes its net underwriting activity to the Lead Company.
- (b) After recording the assumed affiliate transactions noted above, the Lead Company records 100% of its external assumed and ceded reinsurance activity.
- (c) The Lead Company's remaining underwriting activity, after processing all internal and external reinsurance is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above.
- (d) There were no members that are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement that have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.

NOTES TO FINANCIAL STATEMENTS

- (e) There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the Lead Company and corresponding entries on the assumed and ceded reinsurance schedules of other pooled participants.
- (f) The write-off of uncollectible reinsurance is pooled and the Provision for Reinsurance is recognized by the entity placing the outbound external reinsurance
- (g) Amounts due (to)/from affiliated entities participating in the PIC Amended and Restated Reinsurance Pooling Agreement as of December 31, 2011:

Affiliate:	Amount:
Peerless Insurance Company	\$ 2,702,517

Note 27 - Structured Settlements

- A. As a result of purchased annuities with the claimant as payee, the Company no longer carries reserves of \$980,798 after applying Intercompany Reinsurance Agreement percentages. The Company is contingently liable should the issuers of the purchased annuities fail to perform under the terms of the annuities. The amount of unrecorded loss contingencies related to the purchased annuities was \$980,798 as of December 31, 2011.
- 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 28 - Participating Policies

Not applicable

Note 30 - Premium Deficiency Reserves

1. Liability carried for premium deficiency reserves	\$ -
2. Date of the most recent evaluation of this liability	12/31/2011
3. Was anticipated investment income utilized in the calculation?	Yes

Note 31- High Dollar Deductible Policies

Not applicable

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

For Workers Compensation, the Company discounts its reserves for unpaid losses using a tabular discount on the long-term annuity portion of certain workers compensation claims. The tabular discount is based on the Unit Statistical Plan tables as approved by the respective states at an annual discount rate of 4.0%. The December 31, 2011 liabilities subject to discount were carried at a value representing a discount of \$1,062,718 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 that emanate principally from general liability policies written prior to the mid-1980's. In establishing the Company's asbestos and environmental reserves, the Company estimates case reserves for anticipated losses and bulk reserves for claim adjustment expenses and incurred but not reported claims reserves ("IBNR"). The Company maintained casualty excess of loss reinsurance during the relevant periods. The reserves are reported net of cessions to reinsurers and include any reserves reported by ceding reinsurers on assumed reinsurance contracts.

Factors Contributing to Uncertainty in Establishing Adequate Reserves

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

The uncertainties associated with establishing reserves for asbestos and environmental claims and claim adjustment expenses are compounded by the differing, and at times inconsistent, court rulings on environmental and asbestos coverage issues involving: (i) the differing interpretations of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered, (ii) when the loss occurred and what policies provide coverage, (iii) whether there is an insured obligation to defend, (iv) whether a compensable loss or injury has occurred, (v) how policy limits are determined, (vi) how policy exclusions are applied and interpreted, (vii) the impact of entities seeking bankruptcy protection as a result of asbestos-related liabilities, (viii) whether clean-up costs are covered as insured property

NOTES TO FINANCIAL STATEMENTS

damage, and (ix) applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim. The uncertainties cannot be reasonably estimated, but could have a material impact on the Company's future operating results and financial condition.

In the 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 (e.g., Mississippi) have been favorable to defendants. Most importantly, several states have enacted and sustained 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.

In the third quarter of 2011, the Company completed ground-up asbestos and environmental reserve studies. The studies were completed by a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel, and they included all major segments of the Company's direct, assumed, and ceded asbestos and environmental claims. As part of the internal reviews, potential exposures of certain policyholders were individually evaluated using the Company's proprietary stochastic model, which is consistent with published actuarial papers 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. The studies resulted in an increase to reserves. Between comprehensive studies, the Company monitors asbestos and environmental activity to determine whether or not any adjustment to reserves is warranted.

Uncertainty Regarding Reserving Methodologies

As a result of the significant uncertainty inherent in determining a company's asbestos and environmental liabilities and establishing related reserves, the amount of reserves required to adequately fund the Company's asbestos and environmental claims cannot be accurately estimated using conventional reserving methodologies based on historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations including managerial judgment. In that regard, the estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability, and the risks inherent in major litigation and other uncertainties, the Company believes that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in an aggregate liability that differs from current reserves by an amount that could be material to the Company's future operating results and financial condition.

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

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

The following tables summarize the activity for the Company's asbestos and environmental claims and claim adjustment expenses, a component of the Company's unpaid claims and claim adjustment expenses, for the years ended December 31, 2011, 2010, 2009, 2008, and 2007:

Asbestos:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Direct Basis					
Beginning Reserves	1,371,846	1,294,188	1,339,059	1,252,801	1,127,361
Incurring losses and LAE	74,929	197,323	17,101	(104)	(227,001)
Calendar year payments	136,587	152,452	103,359	125,336	78,947
Ending Reserves	1,310,188	1,339,059	1,252,801	1,127,361	821,413
Assumed Reinsurance Basis					
Beginning Reserves	861,544	1,064,045	910,815	1,268,865	1,107,113
Incurring losses and LAE	245,163	(36,155)	450,235	(446)	196,289
Calendar year payments	82,541	117,075	92,185	161,306	75,642
Ending Reserves	1,024,166	910,815	1,268,865	1,107,113	1,227,761
Net of Ceded Reinsurance Basis					
Beginning Reserves	1,804,185	1,910,855	1,833,098	2,158,451	1,898,555
Incurring losses and LAE	264,696	96,338	508,344	1,016	(14,241)
Calendar year payments	182,443	174,094	182,991	260,912	224,945
Ending Reserves	1,886,438	1,833,099	2,158,451	1,898,555	1,659,369
Ending Reserves for Bulk + IBNR included above (Loss & LAE)					
Direct Basis					123,629
Assumed Reinsurance Basis					6,234
Net of Ceded Reinsurance Basis					64,010
Ending Reserves for LAE included above (Case, Bulk & IBNR)					
Direct Basis					241,186
Assumed Reinsurance Basis					10,454
Net of Ceded Reinsurance Basis					162,851

NOTES TO FINANCIAL STATEMENTS

Environmental:	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Direct Basis					
Beginning Reserves	1,564,471	1,487,468	1,270,775	1,082,489	968,948
Incurred losses and LAE	411,607	32,751	(55,161)	(5,789)	194,748
Calendar year payments	297,447	249,445	133,124	107,752	139,239
Ending Reserves	<u>1,678,631</u>	<u>1,270,774</u>	<u>1,082,490</u>	<u>968,948</u>	<u>1,024,457</u>
Assumed Reinsurance Basis					
Beginning Reserves	293,838	285,596	274,620	197,678	180,891
Incurred losses and LAE	4,292	16	(69,990)	3,639	(19,434)
Calendar year payments	7,493	10,991	6,952	20,426	22,543
Ending Reserves	<u>290,637</u>	<u>274,621</u>	<u>197,678</u>	<u>180,891</u>	<u>138,915</u>
Net of Ceded Reinsurance Basis					
Beginning Reserves	1,636,495	1,636,412	1,395,634	1,116,478	994,175
Incurred losses and LAE	454,144	(28,814)	(147,481)	622	(120)
Calendar year payments	252,397	211,964	131,674	122,925	(77,297)
Ending Reserves	<u>1,838,242</u>	<u>1,395,634</u>	<u>1,116,479</u>	<u>994,175</u>	<u>1,071,352</u>
Ending Reserves for Bulk + IBNR included above (Loss & LAE)					
Direct Basis					74,626
Assumed Reinsurance Basis					267
Net of Ceded Reinsurance Basis					62,464
Ending Reserves for LAE included above (Case, Bulk & IBNR)					
Direct Basis					173,617
Assumed Reinsurance Basis					1,798
Net of Ceded Reinsurance Basis					158,750

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 PIC 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 Guaranty Insurance

Not applicable

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes 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? _____ Washington _____
- 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. _____ 12/31/2009 _____
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. _____ 12/31/2009 _____
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). _____ 06/21/2011 _____
- 3.4 By what department or departments?
 Washington State Office of the Insurance Commissioner

- 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. _____ 0.00 %
 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

1 Nationality	2 Type of Entity
.....

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [] No [X]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

.....

8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [] No [X]

8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e., the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the 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 related to the other requirements of the Annual Financial Reporting Model Regulation as allowed for in Section 17A of the Model Regulation, or substantially similar state law or regulation? Yes [] No [X]

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

.....

GENERAL INTERROGATORIES

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

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

.....

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

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

12.11 Name of real estate holding company

12.12 Number of parcels involved

12.13 Total book/adjusted carrying value

	0
\$	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

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

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

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 No

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

.....

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

14.21 If the response to 14.2 is yes, provide information related to amendment(s).

In 2011, Code provisions were added for Registered Investment Adviser compliance, as a Liberty Mutual subsidiary obtained SEC approval as a Registered Investment Adviser. Several non-material Code changes were also made to clarify existing provisions.

.....

GENERAL INTERROGATORIES

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

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

.....

15.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance with a NAIC rating of 3 or below? Yes [] No [X]

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

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

BOARD OF DIRECTORS

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

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

18. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [X] No []

FINANCIAL

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

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

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

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

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

21.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [] No [X]

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

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

22.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [] No [X]

22.2 If answer is yes:

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

GENERAL INTERROGATORIES

- 23.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes No
- 23.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ 0

INVESTMENT

- 24.1 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 24.3) Yes No
- 24.2 If no, give full and complete information, relating thereto:

- 24.3 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.

- 24.4 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
- 24.5 If answer to 24.4 is yes, report amount of collateral for conforming programs. \$ 3,416,095
- 24.6 If answer to 24.4 is no, report amount of collateral for other programs. \$ 0
- 24.7 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
- 24.8 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes No N/A
- 24.9 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending? Yes No N/A
- 25.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 21.1 and 24.3). Yes No

- 25.2 If yes, state the amount thereof at December 31 of the current year:
- | | | | |
|--|-------|--|----------------------|
| | 25.21 | Subject to repurchase agreements | \$ <u>0</u> |
| | 25.22 | Subject to reverse repurchase agreements | \$ <u>0</u> |
| | 25.23 | Subject to dollar repurchase agreements | \$ <u>0</u> |
| | 25.24 | Subject to reverse dollar repurchase agreements | \$ <u>0</u> |
| | 25.25 | Pledged as collateral | \$ <u>0</u> |
| | 25.26 | Placed under option agreements | \$ <u>0</u> |
| | 25.27 | Letter stock or securities restricted as to sale | \$ <u>0</u> |
| | 25.28 | On deposit with state or other regulatory body | \$ <u>28,446,945</u> |
| | 25.29 | Other | \$ <u>0</u> |

25.3 For category (25.27) provide the following:

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

- 26.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes No
- 26.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes No N/A
 If no, attach a description with this statement.

GENERAL INTERROGATORIES

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

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

28. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No []

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

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

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

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

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

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

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

28.05 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
N/A	Liberty Mutual Group Asset Managemen	175 Berkeley Street, Boston, MA 02116

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

29.2 If yes, complete the following schedule:

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

GENERAL INTERROGATORIES

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

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

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

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
30.1 Bonds	154,571,039	163,406,943	8,835,904
30.2 Preferred stocks	0	0	0
30.3 Totals	154,571,039	163,406,943	8,835,904

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

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

.....

.....

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

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

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

.....

.....

.....

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

32.2 If no, list exceptions:

.....

.....

.....

OTHER

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

33.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
.....	\$ 0
.....	\$ 0
.....	\$ 0

34.1 Amount of payments for legal expenses, if any? \$ _____ 16,860

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 payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
.....	\$ 0
.....	\$ 0
.....	\$ 0

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

\$ 4,096

35.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
.....	\$ 0
.....	\$ 0
.....	\$ 0

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>0</u>
2.2 Premium Denominator	\$ <u>83,769,925</u>	\$ <u>82,513,440</u>
2.3 Premium Ratio (2.1/2.2)	<u>0.00</u>	<u>0.00</u>
2.4 Reserve Numerator	\$ <u>420,828</u>	\$ <u>403,162</u>
2.5 Reserve Denominator	\$ <u>133,756,623</u>	\$ <u>131,106,167</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 \$ 3,707,791

3.22 Non-participating policies \$ 299,594,380

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:
 In 2011, the Company was a member of an intercompany reinsurance pooling arrangement where it ceded its business to Peerless Insurance Company.

.....

.....

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

- 6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process:
See Note 21C
.....
.....
- 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 unreinsured 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 31 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? Yes No
- 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 | | \$ | <u>2,740,852</u> |
| 12.12 Unpaid underwriting expenses (including loss adjustment expenses) | | \$ | <u>254,960</u> |
- 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? \$ 34,096
- 12.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium notes or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? Yes No N/A
- 12.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
- | | | | |
|------------|--|-------|---------------|
| 12.41 From | | _____ | 0.00 % |
| 12.42 To | | _____ | <u>9.00 %</u> |
- 12.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium notes or promissory notes taken by a reporting entity or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? Yes No
- 12.6 If yes, state the amount thereof at December 31 of current year:
- | | | | |
|----------------------------------|--|----|------------------|
| 12.61 Letters of Credit | | \$ | <u>6,353,692</u> |
| 12.62 Collateral and other funds | | \$ | <u>1,424,854</u> |
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ 3,738,800
- 13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? Yes No
- 13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. 1
- 14.1 Is the company a cedant in a multiple cedant reinsurance contract? Yes No
- 14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants:

- 14.3 If the answer to 14.1 is yes, are the methods described in item 14.2 entirely contained in the respective multiple cedant reinsurance contracts? Yes No
- 14.4 If the answer to 14.3 is no, are all the methods described in 14.2 entirely contained in written agreements? Yes No
- 14.5 If the answer to 14.4 is no, please explain:

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

- 16.1 Does the reporting entity write any warranty business? Yes No
 If yes, disclose the following information for each of the following types of warranty coverage:

		1		2		3		4		5
		Direct Losses Incurred		Direct Losses Unpaid		Direct Written Premium		Direct Premium Unearned		Direct Premium Earned
16.11 Home	\$	0	\$	0	\$	0	\$	0	\$	0
16.12 Products	\$	0	\$	0	\$	0	\$	0	\$	0
16.13 Automobile	\$	0	\$	0	\$	0	\$	0	\$	0
16.14 Other*	\$	0	\$	0	\$	0	\$	0	\$	0

* Disclose type of coverage: _____

GENERAL INTERROGATORIES**PART 2 – PROPERTY & CASUALTY INTERROGATORIES**

17.1 Does the reporting entity include amounts recoverable on unauthorized reinsurance in Schedule F – Part 3 that it excludes from Schedule F – Part 5.

Yes [] No [X]

Incurred but not reported losses on contracts in force prior to July 1, 1984, and not subsequently renewed are exempt from inclusion in Schedule F – Part 5. Provide the following information for this exemption:

17.11 Gross amount of unauthorized reinsurance in Schedule F – Part 3 excluded from Schedule F – Part 5	\$ 0
17.12 Unfunded portion of Interrogatory 17.11	\$ 0
17.13 Paid losses and loss adjustment expenses portion of Interrogatory 17.11	\$ 0
17.14 Case reserves portion of Interrogatory 17.11	\$ 0
17.15 Incurred but not reported portion of Interrogatory 17.11	\$ 0
17.16 Unearned premium portion of Interrogatory 17.11	\$ 0
17.17 Contingent commission portion of Interrogatory 17.11	\$ 0

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

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

18.1 Do you act as a custodian for health savings accounts?

Yes [] No [X]

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

\$ 0

18.3 Do you act as an administrator for health savings accounts?

Yes [] No [X]

18.4 If yes, please provide the balance of the funds 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
	2011	2010	2009	2008	2007
Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	147,102,720	135,936,393	132,931,877	159,752,064	187,341,684
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	69,223,526	63,909,045	54,293,037	73,700,508	84,600,589
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	135,049,883	129,333,838	127,171,960	151,559,258	154,606,991
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	36,992,622	39,387,958	41,195,363	52,316,081	45,508,556
5. Nonproportional reinsurance lines (Lines 31, 32 & 33)			1	213	22
6. Total (Line 35)	388,368,751	368,567,234	355,592,238	437,328,124	472,057,842
Net Premiums Written (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	33,570,989	34,405,981	37,655,844	44,514,507	48,341,867
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	16,550,393	16,541,090	13,783,137	27,007,342	28,080,245
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	28,954,069	27,551,271	25,065,868	26,278,166	28,899,727
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	5,991,128	5,844,378	4,453,824	9,018,824	7,801,033
11. Nonproportional reinsurance lines (Lines 31, 32 & 33)			1	213	22
12. Total (Line 35)	85,066,579	84,342,720	80,958,674	106,819,052	113,122,894
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	(5,176,454)	(1,185,744)	3,518,313	2,945,937	7,263,937
14. Net investment gain (loss) (Line 11)	5,217,762	6,741,233	8,158,938	4,823,508	10,727,009
15. Total other income (Line 15)	251,398	(652,758)	(141,045)	179,692	355,083
16. Dividends to policyholders (Line 17)	168,226	(28,194)	358,600	132,910	94,891
17. Federal and foreign income taxes incurred (Line 19)	(317,857)	(156,376)	3,082,212	2,622,574	4,082,437
18. Net income (Line 20)	442,337	5,087,301	8,095,394	5,193,653	14,168,701
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 26, Col. 3)	211,639,783	206,301,824	262,916,942	243,578,782	254,088,224
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 15.1)	3,205,742	2,871,824	3,169,545	9,953,105	13,626,560
20.2 Deferred and not yet due (Line 15.2)	24,123,587	23,096,696	22,505,322	16,737,440	14,783,642
20.3 Accrued retrospective premiums (Line 15.3)	36,941	73,287	130,638	46,703	40,746
21. Total liabilities excluding protected cell business (Page 3, Line 26)	164,951,953	160,276,511	182,251,482	173,783,074	179,272,616
22. Losses (Page 3, Line 1)	72,114,971	71,444,366	75,202,385	77,545,504	76,408,786
23. Loss adjustment expenses (Page 3, Line 3)	15,945,906	15,945,414	17,904,365	18,076,766	18,192,060
24. Unearned premiums (Page 3, Line 9)	40,312,976	38,825,262	36,809,073	40,403,696	44,153,576
25. Capital paid up (Page 3, Lines 30 & 31)	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
26. Surplus as regards policyholders (Page 3, Line 37)	46,687,830	46,025,313	80,665,460	69,795,708	74,815,608
Cash Flow (Page 5)					
27. Net cash from operations (Line 11)	(19,607)	(290,010)	(3,237,804)	6,195,570	13,612,687
Risk-Based Capital Analysis					
28. Total adjusted capital	46,687,830	46,025,313	80,665,460	69,795,708	74,815,608
29. Authorized control level risk-based capital	7,587,498	7,676,388	7,794,269	9,357,707	10,444,273
Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 12, Col. 3) x 100.0					
30. Bonds (Line 1)	95.8	94.9	85.1	78.6	75.2
31. Stocks (Lines 2.1 & 2.2)	0.0	0.0	4.1	4.7	23.2
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)	3.5	5.0	10.7	16.7	1.5
35. Contract loans (Line 6)					
36. Derivatives (Line 7)			X X X	X X X	X X X
37. Other invested assets (Line 8)					0.0
38. Receivables for securities (Line 9)	0.3		0.0	0.0	0.0
39. Securities lending reinvested collateral assets (Line 10)	0.5	0.1	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
Investments in Parent, Subsidiaries and Affiliates					
42. Affiliated bonds, (Sch. D, Summary, Line 12, Col. 1)					
43. Affiliated preferred stocks (Sch. D, Summary, Line 18, Col. 1)					
44. Affiliated common stocks (Sch. D, Summary, Line 24, Col. 1)					
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
	2011	2010	2009	2008	2007
Capital and Surplus Accounts (Page 4)					
50. Net unrealized capital gains (losses) (Line 24)	39,685	82,970	1,736,146	(8,193,377)	(606,496)
51. Dividends to stockholders (Line 35)		(40,000,000)			(15,000,000)
52. Change in surplus as regards policyholders for the year (Line 38)	662,517	(34,640,147)	10,869,751	(5,019,899)	(2,770,361)
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
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)	84,987,537	76,403,984	78,605,929	89,288,076	94,600,649
54. Property lines (Lines 1, 2, 9, 12, 21 & 26)	36,957,939	31,076,824	32,935,118	44,296,083	45,693,180
55. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	74,937,261	62,531,127	68,709,984	79,264,071	59,588,924
56. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	17,752,727	13,180,076	8,280,369	1,899,009	5,125,689
57. Nonproportional reinsurance lines (Lines 31, 32 & 33)	63,084	171,288	2,497,833	422,550	277,636
58. Total (Line 35)	214,698,548	183,363,299	191,029,233	215,169,789	205,286,078
Net Losses Paid (Page 9, Part 2, Col. 4)					
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)	20,321,656	25,503,471	19,845,831	25,542,097	29,257,506
60. Property lines (Lines 1, 2, 9, 12, 21 & 26)	9,391,612	8,476,300	9,505,900	15,359,929	15,573,896
61. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	19,869,703	14,683,572	12,415,322	17,499,088	13,430,583
62. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	1,510,158	1,156,489	610,115	456,225	(62,648)
63. Nonproportional reinsurance lines (Lines 31, 32 & 33)	63,084	171,288	2,471,438	422,550	277,636
64. Total (Line 35)	51,156,213	49,991,120	44,848,606	59,279,889	58,476,973
Operating Percentages (Page 4) (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)	61.9	56.0	50.7	55.5	53.1
67. Loss expenses incurred (Line 3)	12.1	11.8	11.9	11.5	9.7
68. Other underwriting expenses incurred (Line 4)	32.2	33.6	33.2	30.3	30.7
69. Net underwriting gain (loss) (Line 8)	(6.2)	(1.4)	4.2	2.7	6.5
Other Percentages					
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)	31.4	33.6	34.6	31.2	30.0
71. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	73.9	67.8	62.6	67.0	62.9
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)	182.2	183.3	100.4	153.0	151.2
One Year Loss Development (000 omitted)					
73. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2-Summary, Line 12, Col. 11)	(2,255)	(958)	(6,170)	(3,115)	(2,938)
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)	(4.9)	(1.2)	(8.8)	(4.2)	(3.8)
Two Year Loss Development (000 omitted)					
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)	(2,024)	(4,929)	(8,892)	(4,470)	(6,163)
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)	(2.5)	(7.1)	(11.9)	(5.8)	(8.3)

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 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded			
1. Prior	X X X	X X X	X X X	1,977	235	273	15	106	23	27	2,083	X X X
2. 2002	72,935	7,170	65,765	40,255	4,023	3,049	286	5,168	261	2,368	43,902	X X X
3. 2003	79,626	6,650	72,976	39,000	3,414	2,741	200	5,841	277	2,437	43,691	X X X
4. 2004	85,690	4,728	80,962	40,008	1,625	2,519	90	5,727	122	3,017	46,417	X X X
5. 2005	89,270	3,616	85,654	40,918	1,659	2,634	96	6,010	94	2,884	47,713	X X X
6. 2006	89,152	3,982	85,170	41,140	933	2,593	112	6,090	136	2,517	48,642	X X X
7. 2007	90,994	4,444	86,550	41,392	911	2,513	94	6,051	86	2,710	48,865	X X X
8. 2008	90,816	3,376	87,440	45,260	1,379	2,321	100	6,707	70	2,382	52,739	X X X
9. 2009	85,205	5,329	79,876	36,122	2,365	1,488	113	5,885	51	2,127	40,966	X X X
10. 2010	84,216	1,703	82,513	33,177	227	926	9	6,234	12	2,141	40,089	X X X
11. 2011	85,318	1,548	83,770	28,898	103	377	3	4,903	10	1,622	34,062	X X X
12. Totals	X X X	X X X	X X X	388,147	16,874	21,434	1,118	58,722	1,142	24,232	449,169	X X X

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding Direct and Assumed
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		Other Unpaid				
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	21 Direct and Assumed	22 Ceded			
1. Prior	9,736	3,402	4,815	705	328	75	937	112	789		229	12,311	X X X
2. 2002	1,744	272	226	94	20	2	67	6	76		2	1,759	X X X
3. 2003	648	97	318	44	14		129	5	62		35	1,025	X X X
4. 2004	807	199	450	55	21		128	6	82		149	1,228	X X X
5. 2005	997	110	519	76	30		250	9	105		178	1,706	X X X
6. 2006	1,543	205	526	77	48		348	17	154		480	2,320	X X X
7. 2007	2,604	123	951	191	84		466	37	241		176	3,995	X X X
8. 2008	3,624	79	1,835	365	148	1	941	44	444		578	6,503	X X X
9. 2009	5,697	120	3,218	338	177	5	1,402	56	676		603	10,651	X X X
10. 2010	8,374	77	4,931	324	195	2	2,189	81	1,173		999	16,378	X X X
11. 2011	13,429	67	12,300	154	160		2,620	15	1,943	33	1,678	30,183	X X X
12. Totals	49,203	4,751	30,089	2,423	1,225	85	9,477	388	5,745	33	5,107	88,059	X X X

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1. Prior	X X X	X X X	X X X	X X X	X X X	X X X			X X X	10,444	1,867
2. 2002	50,605	4,944	45,661	69.384	68.954	69.431			0.800	1,604	155
3. 2003	48,753	4,037	44,716	61.227	60.707	61.275			0.800	825	200
4. 2004	49,742	2,097	47,645	58.049	44.353	58.849			0.800	1,003	225
5. 2005	51,463	2,044	49,419	57.649	56.527	57.696			0.800	1,330	376
6. 2006	52,442	1,480	50,962	58.823	37.167	59.836			0.800	1,787	533
7. 2007	54,302	1,442	52,860	59.676	32.448	61.075			0.800	3,241	754
8. 2008	61,280	2,038	59,242	67.477	60.367	67.752			0.800	5,015	1,488
9. 2009	54,665	3,048	51,617	64.157	57.196	64.621			0.800	8,457	2,194
10. 2010	57,199	732	56,467	67.919	42.983	68.434			0.800	12,904	3,474
11. 2011	64,630	385	64,245	75.752	24.871	76.692			0.800	25,508	4,675
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	72,118	15,941

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
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	One Year	Two Year
1. Prior	41,876	44,750	45,213	46,610	47,172	47,682	46,693	48,842	49,891	49,924	33	1,082
2. 2002	42,112	41,898	41,519	40,641	40,495	40,167	39,897	40,142	40,134	40,730	596	588
3. 2003	XXX	41,478	40,718	39,703	39,498	39,771	39,465	39,321	39,162	39,127	(35)	(194)
4. 2004	XXX	XXX	46,647	45,515	44,922	42,968	42,706	42,214	42,100	42,003	(97)	(211)
5. 2005	XXX	XXX	XXX	48,677	46,825	44,510	44,226	43,688	43,570	43,438	(132)	(250)
6. 2006	XXX	XXX	XXX	XXX	47,906	46,928	45,703	44,681	44,828	44,904	76	223
7. 2007	XXX	XXX	XXX	XXX	XXX	51,348	49,986	46,861	46,837	46,708	(129)	(153)
8. 2008	XXX	XXX	XXX	XXX	XXX	XXX	55,578	53,050	52,843	52,224	(619)	(826)
9. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	47,445	45,949	45,162	(787)	(2,283)
10. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	50,285	49,123	(1,162)	XXX
11. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	57,465	XXX	XXX
											12. Totals	
											(2,256)	(2,024)

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
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		
1. Prior	000	12,429	20,162	25,159	28,548	30,930	32,951	34,243	35,770	37,771	XXX	XXX
2. 2002	19,192	28,094	32,332	35,293	36,807	37,684	38,238	38,537	38,857	38,994	XXX	XXX
3. 2003	XXX	19,366	27,888	31,974	34,639	36,438	37,224	37,697	37,952	38,126	XXX	XXX
4. 2004	XXX	XXX	20,093	30,176	34,879	37,672	39,322	40,137	40,528	40,811	XXX	XXX
5. 2005	XXX	XXX	XXX	20,571	30,544	35,319	38,423	40,367	41,307	41,797	XXX	XXX
6. 2006	XXX	XXX	XXX	XXX	20,950	31,125	35,556	39,133	41,343	42,688	XXX	XXX
7. 2007	XXX	XXX	XXX	XXX	XXX	21,770	32,336	37,190	40,709	42,900	XXX	XXX
8. 2008	XXX	XXX	XXX	XXX	XXX	XXX	25,242	37,325	42,588	46,103	XXX	XXX
9. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	21,084	30,558	35,132	XXX	XXX
10. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	23,157	33,867	XXX	XXX
11. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	29,169	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
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Prior	15,947	12,760	9,772	8,394	7,604	6,474	6,246	6,756	6,892	5,526
2. 2002	12,789	6,501	3,701	2,138	1,568	1,063	705	652	388	246
3. 2003	XXX	11,598	5,776	3,303	2,287	1,665	1,220	829	526	436
4. 2004	XXX	XXX	14,562	7,247	4,785	2,580	1,897	1,026	753	563
5. 2005	XXX	XXX	XXX	16,267	8,090	4,090	2,536	1,444	997	725
6. 2006	XXX	XXX	XXX	XXX	14,673	7,387	4,503	2,169	1,232	830
7. 2007	XXX	XXX	XXX	XXX	XXX	15,169	7,913	3,729	2,028	1,244
8. 2008	XXX	XXX	XXX	XXX	XXX	XXX	16,494	7,257	4,329	2,431
9. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	14,459	7,321	4,280
10. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	14,277	6,764
11. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	14,775

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated By States and Territories

	1	Active Status	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
			2 Direct Premiums Written	3 Direct Premiums Earned						
1. Alabama	AL	L	1,054,762	1,089,713		1,235,252	526,957	621,807	12,859	
2. Alaska	AK	L	2,812,111	2,775,146		787,601	627,567	1,370,453	34,284	
3. Arizona	AZ	L	691,659	678,890		388,280	(230,314)	2,233,920	8,432	
4. Arkansas	AR	L	376,659	456,341		334,049	633,639	378,854	4,592	
5. California	CA	L	97,184,808	95,556,888		56,504,446	55,727,766	59,281,729	1,184,818	
6. Colorado	CO	L	1,808,894	2,147,658		2,392,302	1,648,718	2,530,027	22,053	
7. Connecticut	CT	L	1,498,682	1,664,586		958,283	(429,692)	3,470,198	18,271	
8. Delaware	DE	L	54,476	74,123		185	22,399	44,079	664	
9. District of Columbia	DC	L	114,949	152,924		15,493	(857,911)	362,490	1,401	
10. Florida	FL	L	14,290,367	14,545,678		6,554,977	3,789,532	5,280,576	174,219	
11. Georgia	GA	L	5,065,220	5,524,490		3,824,205	1,096,822	3,811,884	61,752	
12. Hawaii	HI	L	272,801	247,855		1,001,500	(1,648,737)	1,751,934	3,326	
13. Idaho	ID	L	1,080,690	1,330,523		717,418	(686,531)	2,224,700	13,175	
14. Illinois	IL	L	3,526,036	4,094,654		3,563,678	(34,333)	6,667,293	42,987	
15. Indiana	IN	L	446,765	571,142		556,219	1,287,614	1,852,881	5,447	
16. Iowa	IA	L	74,713	109,276		99,801	(212,393)	253,062	911	
17. Kansas	KS	L	438,133	474,693		322,491	(70,883)	230,940	5,341	
18. Kentucky	KY	L	388,258	384,441		301,817	(67,076)	1,622,924	4,733	
19. Louisiana	LA	L	1,232,822	1,525,580		3,743,478	2,478,640	3,963,526	15,030	
20. Maine	ME	L	50,923	58,814			(8,186)	18,557	621	
21. Maryland	MD	L	618,228	599,724		212,359	(477,898)	547,729	7,537	
22. Massachusetts	MA	L	990,121	843,241		47,530	(830,710)	639,423	12,071	
23. Michigan	MI	L	1,541,907	1,775,843		1,327,861	709,320	2,802,849	18,798	
24. Minnesota	MN	L	1,484,988	1,608,526		1,772,446	(1,015,318)	2,401,873	18,104	
25. Mississippi	MS	L	431,817	466,316		83,733	(504,593)	104,597	5,264	
26. Missouri	MO	L	2,291,157	2,630,711		4,871,021	4,212,573	2,961,772	27,932	
27. Montana	MT	L	1,375,349	1,576,473		317,266	1,238,766	2,459,150	16,767	
28. Nebraska	NE	L	95,817	112,036		25,532	(49,177)	104,887	1,168	
29. Nevada	NV	L	554,152	496,537		70,488	(6,539)	392,642	6,756	
30. New Hampshire	NH	L	125,559	123,282		38,840	(18,713)	138,470	1,531	
31. New Jersey	NJ	L	1,312,424	1,418,499		185,706	(389,717)	2,665,969	16,000	
32. New Mexico	NM	L	418,069	507,016		921,069	(181,765)	2,116,084	5,097	
33. New York	NY	L	7,099,791	7,244,313		1,162,175	1,573,023	2,654,364	86,556	
34. North Carolina	NC	L	2,238,548	2,253,886		1,265,294	633,299	1,664,174	27,291	
35. North Dakota	ND	L	101,710	178,344		460,967	240,322	(168,657)	1,240	
36. Ohio	OH	L	622,344	645,133		481,125	16,696	1,085,149	7,587	
37. Oklahoma	OK	L	603,190	562,303		1,232,854	1,286,070	620,838	7,354	
38. Oregon	OR	L	5,794,901	6,318,593		901,302	(1,171,855)	4,203,715	70,648	
39. Pennsylvania	PA	L	1,307,521	1,684,842		1,397,771	(144,324)	1,807,731	15,940	
40. Rhode Island	RI	L	126,993	133,130		86,713	(96,362)	249,804	1,548	
41. South Carolina	SC	L	27,308,791	24,976,548		13,779,597	13,265,160	10,499,115	332,932	
42. South Dakota	SD	L	270,887	269,239		167,122	26,064	206,192	3,303	
43. Tennessee	TN	L	978,245	877,600		585,939	(134,660)	616,191	11,926	
44. Texas	TX	L	9,665,487	10,212,946	557,572	4,267,366	1,805,974	11,274,352	117,836	
45. Utah	UT	L	1,166,683	1,317,011		397,818	(311,904)	1,272,295	14,223	
46. Vermont	VT	L	89,054	85,031		36,406	(79,638)	410,846	1,086	
47. Virginia	VA	L	667,718	692,181		1,282,031	(469,449)	1,515,216	8,140	
48. Washington	WA	L	100,496,374	87,902,404		40,833,717	45,828,099	36,254,050	1,225,191	
49. West Virginia	WV	L	217,432	277,817		1,130,773	(374,125)	191,161	2,651	
50. Wisconsin	WI	L	181,759	218,821		88,686	(249,921)	289,212	2,216	
51. Wyoming	WY	L	661,424	755,649		809,352	1,445,260	244,088	8,064	
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) 51		303,302,168	292,227,410	557,572	163,542,334	129,367,556	190,197,115	3,697,673	

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.

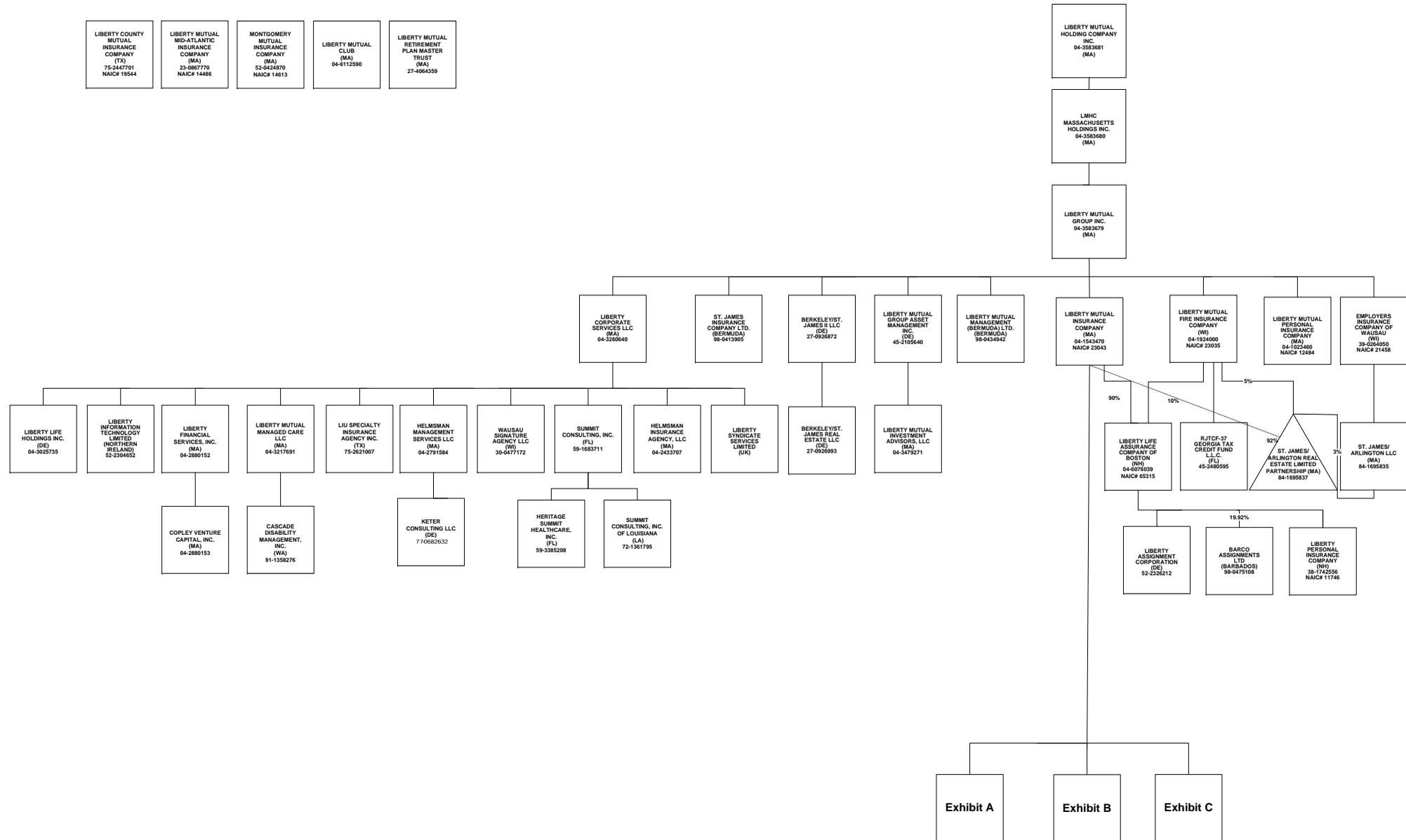
Explanation of basis of allocation of premiums by states, etc.

- | | |
|--|---|
| <ul style="list-style-type: none"> *Location of coverage - Fire, Allied Lines, Homeowners Multi Peril, Commercial Multi Peril, Earthquake, Boiler and Machinery *States employee's main work place - Worker's Compensation *Location of Principal place of garaging of each individual car - Auto Liability, Auto Physical Damage *Principal Location of business or location of coverage - Liability other than Auto, Fidelity, Warranty *Point of origin of shipment or principal location of assured - Inland Marine *State in which employees regularly work - Group Accident and Health | <ul style="list-style-type: none"> *Location of Court or Obligor - Surety *Address of Assured - Other Accident and Health *Location of Properties covered - Burglary and Theft *Principal Location of Assured - Ocean Marine, Credit *Primary residence of Assured - Aircraft (all perils) |
|--|---|

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

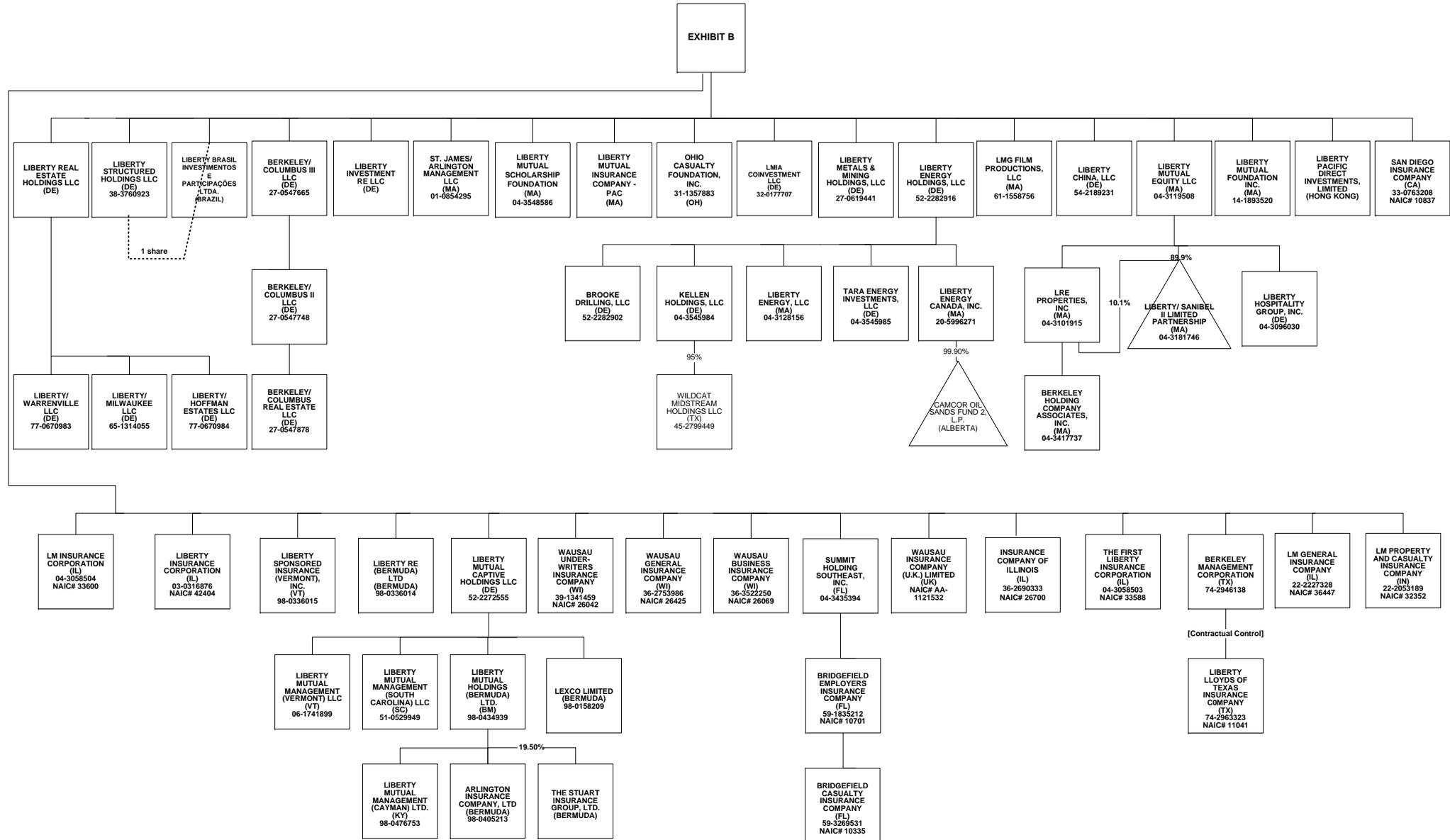
SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



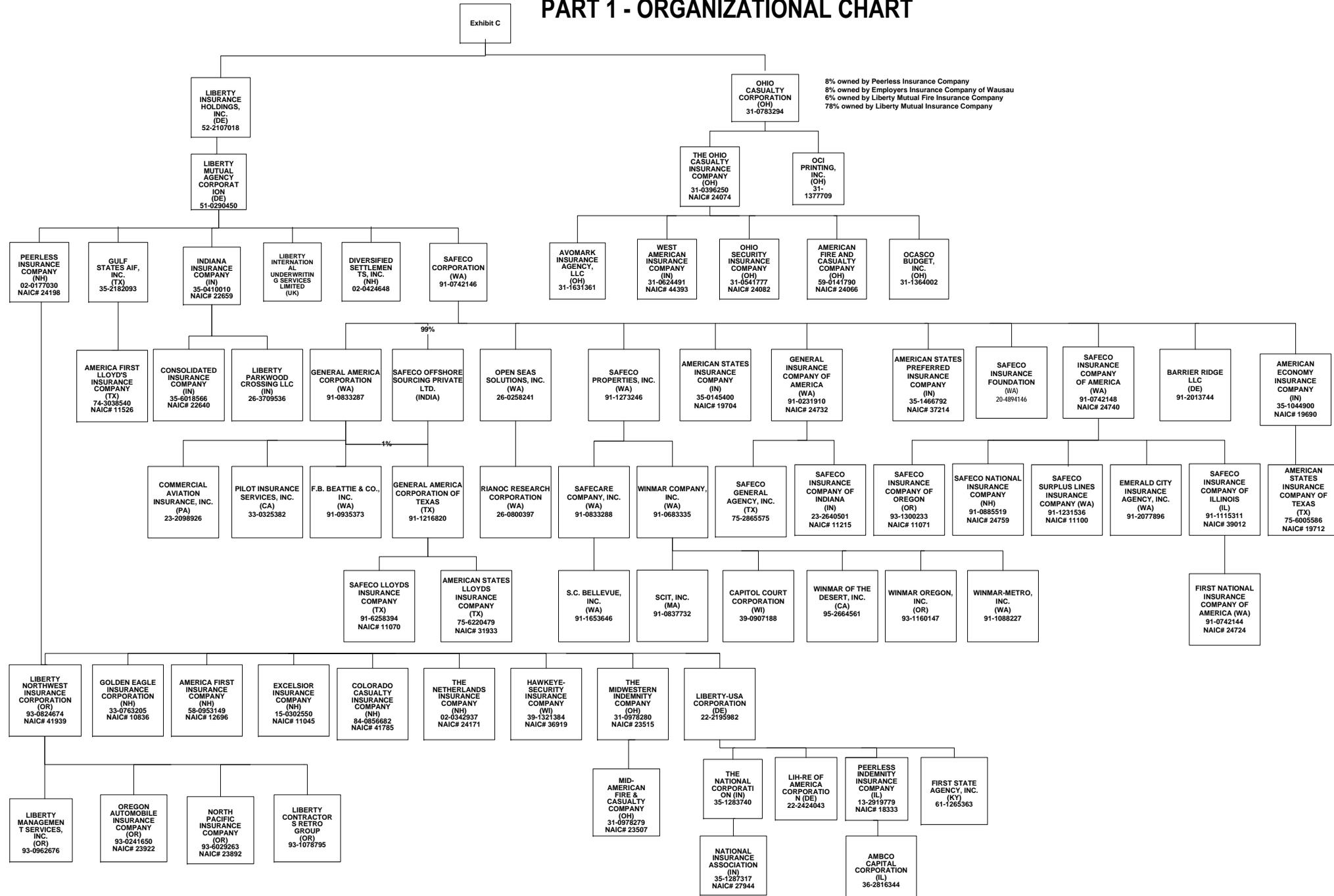
SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



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

PART 1 - ORGANIZATIONAL CHART



OVERFLOW PAGE FOR WRITE-INS

Page 3 - Continuation

	1	2
REMAINING WRITE-INS AGGREGATED AT LINE 25 FOR LIABILITIES	Current Year	Prior Year
2504. Accrued return retrospective premiums		97,393
2505. Private passenger auto escrow		8,562
2597. Totals (Lines 2504 through 2596) (Page 3, Line 2598)		105,955

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