

ANNUAL STATEMENT

OF THE

GOLDEN EAGLE INSURANCE CORPORATION

of **SAN DIEGO**

in the state of **CALIFORNIA**

TO THE

Insurance Department

OF THE

FOR THE YEAR ENDED

December 31, 2008

PROPERTY AND CASUALTY

2008



10836200820100010

ANNUAL STATEMENT

For the Year Ended December 31, 2008
OF THE CONDITION AND AFFAIRS OF THE

Golden Eagle Insurance Corporation

NAIC Group Code 0111 0111 **NAIC Company Code** 10836 **Employer's ID Number** 33-0763205
(Current Period) (Prior Period)

Organized under the Laws of California, **State of Domicile or Port of Entry** California
Country of Domicile United States of America

Incorporated/Organized: July 9, 1997 **Commenced Business:** August 22, 1997

Statutory Home Office: 525 B Street, San Diego, CA 92101
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office: 525 B Street
(Street and Number)
San Diego, CA 92101 619-744-6000
(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 Website Address: www.LibertyMutualAgencyMarkets.com

Statutory Statement Contact: Joanne Connolly 617-357-9500 x44393
(Name) (Area Code) (Telephone Number) (Extension)
Joanne.Connolly@LibertyMutual.com 617-574-5955
(E-Mail Address) (Fax Number)

OFFICERS

Chairman of the Board

Gary Richard Gregg

	Name	Title
1.	<u>Gary Richard Gregg</u>	<u>President and Chief Executive Officer</u>
2.	<u>Dexter Robert Legg #</u>	<u>Secretary</u>
3.	<u>Michael Joseph Fallon #</u>	<u>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>Joseph Anthony Gilles</u>	<u>Executive Vice President</u>
<u>Scott Rhodes Goodby</u>	<u>EVP and Chief Operating Officer</u>		

DIRECTORS OR TRUSTEES

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

State of Massachusetts

County of Suffolk ss

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

<u>(Signature)</u> <u>Gary Richard Gregg</u> <u>(Printed Name)</u> 1. <u>President and Chief Executive Officer</u> <u>(Title)</u>	<u>(Signature)</u> <u>Dexter Robert Legg #</u> <u>(Printed Name)</u> 2. <u>Secretary</u> <u>(Title)</u>	<u>(Signature)</u> <u>Michael Joseph Fallon #</u> <u>(Printed Name)</u> 3. <u>Treasurer and Chief Financial Officer</u> <u>(Title)</u>
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Subscribed and sworn to before me this
2nd day of February, 2009

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)	700,709,044		700,709,044	788,124,917
2. Stocks (Schedule D):				
2.1 Preferred stocks	23,100		23,100	3,154,042
2.2 Common stocks	35,228,178		35,228,178	106,241,413
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 (\$ 3,005,646, Schedule E - Part 1), cash equivalents (\$ 21,470,475, Schedule E - Part 2), and short-term investments (\$ 30,674,641, Schedule DA)	55,150,762		55,150,762	58,500,057
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)				
8. Receivables for securities				82,463
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	791,111,084		791,111,084	956,102,892
11. Title plants less \$ 0 charged off (for Title insurers only)				
12. Investment income due and accrued	8,261,265		8,261,265	8,407,005
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	16,248,715	1,804,378	14,444,337	23,176,477
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 2,623,115 earned but unbilled premiums)	111,875,933	393,403	111,482,530	152,074,798
13.3 Accrued retrospective premiums	2,357,653	211,979	2,145,674	1,275,728
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	259,649		259,649	64,797
14.2 Funds held by or deposited with reinsured companies				
14.3 Other amounts receivable under reinsurance contracts				
15. Amounts receivable relating to uninsured plans				
16.1 Current federal and foreign income tax recoverable and interest thereon				
16.2 Net deferred tax asset	56,011,000	33,913,973	22,097,027	23,543,080
17. Guaranty funds receivable or on deposit	554,195		554,195	595,965
18. Electronic data processing equipment and software	1,997	698	1,299	18,268
19. Furniture and equipment, including health care delivery assets (\$ 0)	5,094	5,094		
20. Net adjustment in assets and liabilities due to foreign exchange rates				
21. Receivables from parent, subsidiaries and affiliates				
22. Health care (\$ 0) and other amounts receivable				
23. Aggregate write-ins for other than invested assets	6,895,274	41,526	6,853,748	3,472,158
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	993,581,859	36,371,051	957,210,808	1,168,731,168
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	993,581,859	36,371,051	957,210,808	1,168,731,168

DETAILS OF WRITE-IN LINES				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 09 from overflow page				
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)				
2301. Other assets	68,529	41,526	27,003	291,527
2302. Cash Surrender Value Life Insurance	3,869,568		3,869,568	
2303. Equities and deposits in pools and associations	2,957,177		2,957,177	3,180,631
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	6,895,274	41,526	6,853,748	3,472,158

LIABILITIES, SURPLUS AND OTHER FUNDS

	1	2
	Current Year	Prior Year
1. Losses (Part 2A, Line 35, Column 8)	413,714,835	419,941,207
2. Reinsurance payable on paid losses and loss adjustment expenses	21,635,179	21,809,536
3. Loss adjustment expenses (Part 2A, Line 35, Column 9)	94,736,410	96,103,400
4. Commissions payable, contingent commissions and other similar charges	11,259,985	15,491,661
5. Other expenses (excluding taxes, licenses and fees)	13,815,801	15,158,262
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	8,557,672	9,437,353
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))	2,859,445	11,755,212
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 \$ 64,069,547 and including warranty reserves of \$ 0)	177,063,114	224,190,545
10. Advance premium	1,155,502	1,047,688
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders	251,331	94,801
12. Ceded reinsurance premiums payable (net of ceding commissions)		
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	780,512	256,508
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	2,538,606	
19. Payable to parent, subsidiaries and affiliates	2,638,151	6,968,329
20. Payable for securities		363,032
21. Liability for amounts held under uninsured plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	25,348,233	33,693,231
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	776,354,776	856,310,765
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	776,354,776	856,310,765
27. Aggregate write-ins for special surplus funds		
28. Common capital stock	2,600,000	2,600,000
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes		
32. Gross paid in and contributed surplus	162,189,768	221,633,333
33. Unassigned funds (surplus)	16,066,264	88,187,070
34. Less treasury stock, at cost:		
34.1 0 shares common (value included in Line 28 \$ 0)		
34.2 0 shares preferred (value included in Line 29 \$ 0)		
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 39)	180,856,032	312,420,403
36. Totals (Page 2, Line 26, Col. 3)	957,210,808	1,168,731,168

DETAILS OF WRITE-IN LINES		
2301. Other liabilities	2,889,487	4,160,837
2302. Collateral held for securities loaned	13,678,386	29,532,394
2303. Pooled retroactive reinsurance	8,780,360	
2398. Summary of remaining write-ins for Line 23 from overflow page		
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	25,348,233	33,693,231
2701.		
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page		
2799. Totals (Lines 2701 through 2703 plus 2798) (Line 27 above)		
3001.		
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page		
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)		

STATEMENT OF INCOME

	1	2
	Current Year	Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 35, Column 4)	418,689,237	477,069,626
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 35, Column 7)	219,261,300	244,982,900
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	45,383,332	54,070,708
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	141,543,495	169,962,767
5. Aggregate write-ins for underwriting deductions		
6. Total underwriting deductions (Lines 2 through 5)	406,188,127	469,016,375
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	12,501,110	8,053,251
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	48,775,368	42,054,246
10. Net realized capital gains (losses) less capital gains tax of \$ (876,045) (Exhibit of Capital Gains (Losses))	2,187,595	140,985
11. Net investment gain (loss) (Lines 9 + 10)	50,962,963	42,195,231
OTHER INCOME		
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ 43,072 amount charged off \$ 1,692,654)	(1,649,582)	(976,056)
13. Finance and service charges not included in premiums	345,221	642,829
14. Aggregate write-ins for miscellaneous income	(4,592,578)	(146,814)
15. Total other income (Lines 12 through 14)	(5,896,939)	(480,041)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	57,567,134	49,768,441
17. Dividends to policyholders	2,733,319	1,148,151
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)	54,833,815	48,620,290
19. Federal and foreign income taxes incurred	9,829,945	16,147,105
20. Net income (Line 18 minus Line 19) (to Line 22)	45,003,870	32,473,185
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	312,420,403	279,489,404
22. Net income (from Line 20)	45,003,870	32,473,185
23. Net transfers (to) from Protected Cell accounts		
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ (3,954,617)	(15,180,388)	1,182,536
25. Change in net unrealized foreign exchange capital gain (loss)		
26. Change in net deferred income tax	8,852,383	2,305,028
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	(14,698,654)	(3,029,750)
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)		
29. Change in surplus notes		
30. Surplus (contributed to) withdrawn from protected cells		
31. Cumulative effect of changes in accounting principles		
32. Capital changes:		
32.1 Paid in		
32.2 Transferred from surplus (Stock Dividend)		
32.3 Transferred to surplus		
33. Surplus adjustments:		
33.1 Paid in	(59,443,565)	
33.2 Transferred to capital (Stock Dividend)		
33.3 Transferred from capital		
34. Net remittances from or (to) Home Office		
35. Dividends to stockholders	(97,244,156)	
36. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)		
37. Aggregate write-ins for gains and losses in surplus	1,146,139	
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	(131,564,371)	32,930,999
39. Surplus as regards policyholders, as of December 31 current year (Lines 21 plus Line 38) (Page 3, Line 35)	180,856,032	312,420,403

DETAILS OF WRITE-IN LINES		
0501.		
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)		
1401. Other income/(expense)	(4,669,662)	(146,814)
1402. Retroactive reinsurance gain/(loss)	77,084	
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page		
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	(4,592,578)	(146,814)
3701. Other changes in surplus	1,146,139	
3702.		
3703.		
3798. Summary of remaining write-ins for Line 37 from overflow page		
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)	1,146,139	

CASH FLOW

	1	2
Cash from Operations	Current Year	Prior Year
1. Premiums collected net of reinsurance	419,268,978	488,627,062
2. Net investment income	48,982,386	40,856,465
3. Miscellaneous income	(5,192,079)	(1,666,642)
4. Total (Lines 1 through 3)	463,059,285	527,816,885
5. Benefit and loss related payments	223,318,275	212,084,311
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	193,795,602	210,046,828
8. Dividends paid to policyholders	2,576,789	1,249,806
9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)	17,849,668	9,812,449
10. Total (Lines 5 through 9)	437,540,334	433,193,394
11. Net cash from operations (Line 4 minus Line 10)	25,518,951	94,623,491
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	139,737,700	73,421,684
12.2 Stocks	60,146,815	
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets		
12.6 Net gains (or losses) on cash, cash equivalents and short-term investments	3,140	
12.7 Miscellaneous proceeds		
12.8 Total investment proceeds (Lines 12.1 to 12.7)	199,887,655	73,421,684
13. Cost of investments acquired (long-term only):		
13.1 Bonds	52,894,087	156,342,588
13.2 Stocks	3,318,251	7,309,530
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets		
13.6 Miscellaneous applications	280,569	6,094,155
13.7 Total investments acquired (Lines 13.1 to 13.6)	56,492,907	169,746,273
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)	143,394,748	(96,324,589)
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	(59,443,565)	
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders	97,244,156	
16.6 Other cash provided (applied)	(15,575,273)	(15,346,032)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	(172,262,994)	(15,346,032)
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)	(3,349,295)	(17,047,130)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	58,500,057	75,547,187
19.2 End of year (Line 18 plus Line 19.1)	55,150,762	58,500,057

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

20.0001		
20.0002		
20.0003		

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 – PREMIUMS EARNED

Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year- per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year- per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire	2,500,969	2,321,848	1,880,578	2,942,239
2. Allied lines	2,900,829	2,056,016	1,763,513	3,193,332
3. Farmowners multiple peril	1,650,831	2,490,887	1,466,537	2,675,181
4. Homeowners multiple peril	23,368,692	21,487,922	12,961,669	31,894,945
5. Commercial multiple peril	76,109,655	71,791,345	48,319,767	99,581,233
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine	6,900,702	6,572,765	3,991,947	9,481,520
10. Financial guaranty				
11.1 Medical malpractice—occurrence	258	(546)		(288)
11.2 Medical malpractice—claims-made				
12. Earthquake	659,353	939,801	382,008	1,217,146
13. Group accident and health				
14. Credit accident and health (group and individual)				
15. Other accident and health	1,129			1,129
16. Workers' compensation	94,216,264	28,801,022	20,163,712	102,853,574
17.1 Other liability—occurrence	25,230,987	13,023,836	12,318,279	25,936,544
17.2 Other liability—claims-made	115,701		35,934	79,767
18.1 Products liability—occurrence	1,273,392	369,108	495,531	1,146,969
18.2 Products liability—claims-made				
19.1,19.2 Private passenger auto liability	29,675,687	18,426,219	15,922,631	32,179,275
19.3,19.4 Commercial auto liability	35,874,863	29,342,123	21,235,905	43,981,081
21. Auto physical damage	31,376,013	22,466,505	17,596,305	36,246,213
22. Aircraft (all perils)				
23. Fidelity	756,333	17,286	354,099	419,520
24. Surety	40,232,300	76,646	15,529,177	24,779,769
26. Burglary and theft	8,474	26,854	8,322	27,006
27. Boiler and machinery	(17,367)	77,311	6,862	53,082
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	372,835,065	220,286,948	174,432,776	418,689,237

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	1,880,573	5			1,880,578
2. Allied lines	1,763,499	14			1,763,513
3. Farmowners multiple peril	1,466,507	31			1,466,538
4. Homeowners multiple peril	12,961,669				12,961,669
5. Commercial multiple peril	49,004,410	1,338	(689,924)	3,943	48,319,767
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	3,935,295	56,652			3,991,947
10. Financial guaranty					
11.1 Medical malpractice—occurrence					
11.2 Medical malpractice—claims-made					
12. Earthquake	382,006	1			382,007
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	21,652,511	51	(1,481,627)	(7,224)	20,163,711
17.1 Other liability—occurrence	12,634,223	130,211	(442,213)	(3,943)	12,318,278
17.2 Other liability—claims-made	35,956		(23)		35,933
18.1 Products liability—occurrence	504,843	17	(9,329)		495,531
18.2 Products liability—claims-made					
19.1,19.2 Private passenger auto liability	15,922,631				15,922,631
19.3,19.4 Commercial auto liability	20,824,265	411,640			21,235,905
21. Auto physical damage	17,523,327	72,978			17,596,305
22. Aircraft (all perils)					
23. Fidelity	111,760	242,340			354,100
24. Surety	11,684,620	3,844,557			15,529,177
26. Burglary and theft	8,322				8,322
27. Boiler and machinery	6,862				6,862
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	172,303,279	4,759,835	(2,623,116)	(7,224)	174,432,774
36. Accrued retrospective premiums based on experience					7,224
37. Earned but unbilled premiums					2,623,116
38. Balance (Sum of Lines 35 through 37)					177,063,114

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 Daily pro rata

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B – PREMIUMS WRITTEN

Line of Business	1 Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
		2 From Affiliates	3 From Non- Affiliates	4 To Affiliates	5 To Non- Affiliates	
1. Fire	284,699	2,500,969		284,699		2,500,969
2. Allied lines	269,400	2,900,829		269,400		2,900,829
3. Farmowners multiple peril	6,002	1,650,831		6,002		1,650,831
4. Homeowners multiple peril		23,368,692				23,368,692
5. Commercial multiple peril	77,647,015	76,109,655		77,647,015		76,109,655
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	232,312	6,900,702		232,312		6,900,702
10. Financial guaranty						
11.1 Medical malpractice—occurrence		258				258
11.2 Medical malpractice—claims-made						
12. Earthquake	1,030,081	659,353		1,030,081		659,353
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health		1,129				1,129
16. Workers' compensation	66	94,216,264		66		94,216,264
17.1 Other liability—occurrence	23,071,147	25,230,987		23,071,147		25,230,987
17.2 Other liability—claims-made		115,701				115,701
18.1 Products liability—occurrence	13,754	1,273,392		13,754		1,273,392
18.2 Products liability—claims-made						
19.1,19.2 Private passenger auto liability		29,675,687				29,675,687
19.3,19.4 Commercial auto liability	16,881,972	35,874,863		16,881,972		35,874,863
21. Auto physical damage	5,393,340	31,376,013		5,393,340		31,376,013
22. Aircraft (all perils)						
23. Fidelity		756,333				756,333
24. Surety		40,232,300				40,232,300
26. Burglary and theft	1,820	8,474		1,820		8,474
27. Boiler and machinery	21,813	(17,367)		21,813		(17,367)
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	124,853,421	372,835,065		124,853,421		372,835,065

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 \$

2. Amount at which such installment premiums would have been reported had they been recorded on an annualized basis \$

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Line of Business	Reported Losses				Incurred But Not Reported			8 Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	9 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		521,218		521,218	13,096	235,196	13,096	756,414	160,016
2. Allied lines	35,000	358,717	35,000	358,717	12,388	109,186	12,388	467,903	107,127
3. Farmowners multiple peril		864,392		864,392	387	179,761	387	1,044,153	246,948
4. Homeowners multiple peril	1	6,266,043	1	6,266,043		3,260,325		9,526,368	1,977,621
5. Commercial multiple peril	24,591,424	48,094,805	24,591,424	48,094,805	15,964,761	35,314,678	15,964,761	83,409,483	35,686,079
6. Mortgage guaranty									
8. Ocean marine									
9. Inland marine	12,998	1,046,336	12,998	1,046,336	11,521	276,577	11,521	1,322,913	235,267
10. Financial guaranty									
11.1 Medical malpractice—occurrence									(4)
11.2 Medical malpractice—claims-made									
12. Earthquake		21,230		21,230				21,230	845
13. Group accident and health								(a)	
14. Credit accident and health (group and individual)								(a)	
15. Other accident and health									(5)
16. Workers' compensation	60,894,101	97,981,171	70,008,895	88,866,377	30,557,949	105,827,857	34,033,764	191,218,419	28,349,589
17.1 Other liability—occurrence	5,782,894	11,731,780	5,782,894	11,731,780	24,690,448	31,053,192	24,690,448	42,784,972	12,797,123
17.2 Other liability—claims-made		7,882		7,882		11,285		19,167	2,633
18.1 Products liability—occurrence		448,255		448,255	31,439	1,008,755	31,439	1,457,010	569,265
18.2 Products liability—claims-made									
19.1,19.2 Private passenger auto liability		18,725,572		18,725,572		6,824,616		25,550,188	4,233,773
19.3,19.4 Commercial auto liability	4,629,875	24,847,426	4,629,875	24,847,426	3,082,686	18,114,963	3,082,686	42,962,389	7,526,615
21. Auto physical damage	238,165	2,027,382	238,165	2,027,382		4,466		2,031,848	177,251
22. Aircraft (all perils)									
23. Fidelity		69,356		69,356		72,219		141,575	178,615
24. Surety		1,103,928		1,103,928	41,299	9,827,707	41,299	10,931,635	2,581,108
26. Burglary and theft		4,236		4,236		816		5,052	1,808
27. Boiler and machinery					1,136	14,180	1,136	14,180	(95,265)
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	49,936		49,936	X X X			49,936	
33. Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
34. Aggregate write-ins for other lines of business									
35. TOTALS	96,184,458	214,169,665	105,299,252	205,054,871	74,407,110	212,135,779	77,882,925	413,714,835	94,736,409

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	9,568,261			9,568,261
1.2 Reinsurance assumed	21,449,994			21,449,994
1.3 Reinsurance ceded	9,600,143			9,600,143
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	21,418,112			21,418,112
2. Commission and brokerage:				
2.1 Direct, excluding contingent		20,117,282		20,117,282
2.2 Reinsurance assumed, excluding contingent		58,938,603		58,938,603
2.3 Reinsurance ceded, excluding contingent		20,117,282		20,117,282
2.4 Contingent—direct				
2.5 Contingent—reinsurance assumed		8,638,101		8,638,101
2.6 Contingent—reinsurance ceded				
2.7 Policy and membership fees				
2.8 Net commission and brokerage (2.1+2.2-2.3+2.4+2.5-2.6+2.7)		67,576,704		67,576,704
3. Allowances to manager and agents		1,861		1,861
4. Advertising	546,461	2,091,433	2,159	2,640,053
5. Boards, bureaus and associations	44,239	1,148,804	58	1,193,101
6. Surveys and underwriting reports	169	1,332,192	1,061	1,333,422
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries	13,065,232	31,240,790	199,718	44,505,740
8.2 Payroll taxes	849,928	2,598,560	11,151	3,459,639
9. Employee relations and welfare	2,203,153	6,529,999	11,332	8,744,484
10. Insurance	35,799	199,133	393	235,325
11. Directors' fees	39	1,023		1,062
12. Travel and travel items	752,548	2,553,158	3,806	3,309,512
13. Rent and rent items	1,118,535	3,175,281	4,469	4,298,285
14. Equipment	907,618	2,554,567	4,068	3,466,253
15. Cost or depreciation of EDP equipment and software	897,880	1,489,671	1,322	2,388,873
16. Printing and stationery	179,700	666,086	554	846,340
17. Postage, telephone and telegraph, exchange and express	440,520	1,740,527	1,494	2,182,541
18. Legal and auditing	98,712	532,669	16,852	648,233
19. Totals (Lines 3 to 18)	21,140,533	57,855,754	258,437	79,254,724
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 128,396		10,421,811		10,421,811
20.2 Insurance department licenses and fees		519,217		519,217
20.3 Gross guaranty association assessments		(2,150,250)		(2,150,250)
20.4 All other (excluding federal and foreign income and real estate)		354,466		354,466
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		9,145,244		9,145,244
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	2,824,687	6,965,793	24,953	9,815,433
25. Total expenses incurred	45,383,332	141,543,495	283,390	(a) 187,210,217
26. Less unpaid expenses—current year	94,736,410	33,633,458		128,369,868
27. Add unpaid expenses—prior year	96,103,400	40,087,275		136,190,675
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)	46,750,322	147,997,312	283,390	195,031,024

DETAILS OF WRITE-IN LINES				
2401. Change in unallocated expense reserves	1,922,260			1,922,260
2402. Other expenses	902,427	6,965,793	24,953	7,893,173
2403.				
2498. Sum of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	2,824,687	6,965,793	24,953	9,815,433

(a) Includes management fees of \$ 283,390 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)	5,125,902	4,720,986
1.1 Bonds exempt from U.S. tax	(a)	11,588,922	11,594,135
1.2 Other bonds (unaffiliated)	(a)	21,950,524	21,934,565
1.3 Bonds of affiliates	(a)		
2.1 Preferred stocks (unaffiliated)	(b)	91,418	91,418
2.11 Preferred stocks of affiliates	(b)		
2.2 Common stocks (unaffiliated)		3,057,809	3,350,566
2.21 Common stocks of affiliates		6,323,610	6,323,610
3. Mortgage loans	(c)		
4. Real estate	(d)		
5. Contract loans			
6. Cash, cash equivalents and short-term investments	(e)	1,044,386	1,021,551
7. Derivative instruments	(f)		
8. Other invested assets			
9. Aggregate write-ins for investment income		21,927	21,927
10. Total gross investment income		49,204,498	49,058,758
11. Investment expenses	(g)		283,390
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)			283,390
17. Net investment income (Line 10 minus Line 16)			48,775,368

DETAILS OF WRITE-IN LINES			
0901. Miscellaneous Income/(Expense)		21,927	21,927
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)		21,927	21,927
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 \$ 448,495 accrual of discount less \$ 509,874 amortization of premium and less \$ 266,589 paid for accrued interest on purchases.
- (b) Includes \$ 101 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 \$ 141,740 accrual of discount less \$ 6,105 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	553,681		553,681		
1.1 Bonds exempt from U.S. tax	11,846		11,846		
1.2 Other bonds (unaffiliated)	(140,288)		(140,288)	(936,120)	
1.3 Bonds of affiliates					
2.1 Preferred stocks (unaffiliated)	88,135	(3,019,500)	(2,931,365)	732,600	
2.11 Preferred stocks of affiliates					
2.2 Common stocks (unaffiliated)				(11,095,384)	
2.21 Common stocks of affiliates	3,814,536		3,814,536	(7,836,101)	
3. Mortgage loans					
4. Real estate					
5. Contract loans					
6. Cash, cash equivalents and short-term investments	3,140		3,140		
7. Derivative instruments					
8. Other invested assets					
9. Aggregate write-ins for capital gains (losses)					
10. Total capital gains (losses)	4,331,050	(3,019,500)	1,311,550	(19,135,005)	

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

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks			
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E - Part 1), cash equivalents (Schedule E - Part 2), and short-term investments (Schedule DA)			
6. Contract loans			
7. Other invested assets (Schedule BA)			
8. Receivables for securities			
9. Aggregate write-ins for invested assets			
10. Subtotals, cash and invested assets (Lines 1 to 9)			
11. Title plants (for Title insurers only)			
12. Investment income due and accrued			
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	1,804,378	998,950	(805,428)
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	393,403	437,139	43,736
13.3 Accrued retrospective premiums	211,979	186,576	(25,403)
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers			
14.2 Funds held by or deposited with reinsured companies			
14.3 Other amounts receivable under reinsurance contracts			
15. Amounts receivable relating to uninsured plans			
16.1 Current federal and foreign income tax recoverable and interest thereon			
16.2 Net deferred tax asset	33,913,973	19,660,920	(14,253,053)
17. Guaranty funds receivable or on deposit			
18. Electronic data processing equipment and software	698	1,063	365
19. Furniture and equipment, including health care delivery assets	5,094	206,766	201,672
20. Net adjustment in assets and liabilities due to foreign exchange rates			
21. Receivables from parent, subsidiaries and affiliates			
22. Health care and other amounts receivable			
23. Aggregate write-ins for other than invested assets	41,526	180,631	139,105
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	36,371,051	21,672,045	(14,699,006)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	36,371,051	21,672,045	(14,699,006)

DETAILS OF WRITE-IN LINES			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 09 from overflow page			
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)			
2301. Other assets	41,526	180,631	139,105
2302.			
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page			
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	41,526	180,631	139,105

NOTES TO FINANCIAL STATEMENTS

Note 1- Summary of Significant Accounting Policies

A. Accounting Practices

Effective January 1, 2001, and subject to any deviations prescribed or permitted by the California Insurance Commissioner, the accompanying financial statements of Golden Eagle Insurance Corporation (the "Company") have been prepared in conformity with the National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual* ("APP Manual").

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

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

C. Accounting Policies

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

In addition, the Company uses the following accounting policies:

1. Short term investments are carried at cost, adjusted where appropriate for amortization of premium or discount, or market as specified by the Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO Manual).
2. Bonds are carried at cost, adjusted where appropriate for amortization of premium or discount, or market as specified by the SVO Manual.
3. The Common stocks are carried at market value.
4. Preferred stocks are carried at cost or market as specified by the SVO Manual.
5. The Company does not own mortgage loans.
6. Mortgage backed/asset backed securities are stated at amortized cost or market based on guidance in the SVO Manual. Prepayment assumptions for mortgage backed/asset backed securities are updated monthly using the Bloomberg data service. The retrospective adjustment method is used to value all mortgage backed/asset backed securities.
7. The Company does not own any subsidiaries, controlled or affiliate entities.
8. The Company does not own any joint ventures, partnerships or limited liability companies.
9. Derivative Securities refer to Note 8.
10. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 53, *Property Casualty Contracts - Premiums*.
11. Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and follow current standards of practice. Any adjustments to the liability are reflected in the period that they are determined.
12. The Company did not change its capitalization policy in 2008.
13. The Company has no pharmaceutical rebate receivables.

Note 2- Accounting Changes and Correction of Errors

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

Note 3- Business Combinations and Goodwill

A. Statutory Purchase Method

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

B. Statutory Mergers

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

NOTES TO FINANCIAL STATEMENTS

C. Impairment Loss

Not applicable

Note 4- Discontinued Operations

The Company has no discontinued operations to report.

Note 5- Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans

The Company has no mortgage loans.

B. Troubled Debt Restructuring for Creditors

Not applicable

C. Reverse Mortgages

The Company has no reverse mortgages.

D. Loan-Backed Securities

1. The Company elected to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities purchased prior to that date, where historical cash flows are not readily available.
2. Prepayment speed assumptions are updated monthly with data sourced from the Bloomberg data service.
3. The Company had no negative yield situations requiring a change from the retrospective to prospective method.

E. Repurchase Agreements

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

	Under 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days	Total
Fair value of open reinvested collateral positions	8,037,160	200,674	501,684	4,938,868	13,678,386

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

F. Real Estate

The Company does not own real estate.

G. Investments in Low-Income Housing Tax Credits

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

Note 6- Joint Ventures, Partnerships & Limited Liability Companies

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

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

Not applicable

Note 7- Investment Income

A. Accrued Investment Income

The Company does not admit investment income due and accrued if amounts are over 90 days past due.

NOTES TO FINANCIAL STATEMENTS

B. Amounts Nonadmitted

No amounts were excluded as of December 31, 2008.

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 and liabilities recognized in the Company's Assets, Liabilities, Surplus and Other Funds are as follows:

	December 31, 2008	December 31, 2007	Change
Total of gross deferred tax assets	58,366,000	53,169,000	5,197,000
Total of deferred tax liabilities	(2,355,000)	(9,965,000)	7,610,000
Net deferred tax asset (liability)	56,011,000	43,204,000	12,807,000
Net deferred tax asset non-admitted	(33,914,000)	(19,660,920)	(14,253,080)
Net admitted deferred tax asset (liability)	22,097,000	23,543,080	(1,446,080)

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

	2008	2007
Federal tax on operations	9,829,945	16,147,105
Net operating loss benefit	0	0
Foreign tax on operations	0	0
Income tax incurred on operations	9,829,945	16,147,105
Tax on capital (losses) gains	(876,045)	75,915
Total income tax incurred	8,953,900	16,223,020

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

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

	2008
Change in net deferred income tax (without unrealized gain or loss)	8,852,383
Tax effect of unrealized (gains) losses	3,954,617
Total change in net deferred income tax	12,807,000

- D. Effective tax rates differ from the current statutory rate of 35% principally due to tax exempt income, partnership investments, dividends received deductions, discounting of unpaid loss and LAE reserves, limits on unearned premium reserve deductions, depreciation, and permanent impairments.
- E. The amount of Federal income taxes incurred and available for recoupment in the event of future losses is \$5,837,000 from the current year and \$17,066,000 from the preceding year.

The Company has no net loss carryforward available to offset future net income subject to Federal income taxes.

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

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

Access Insurance Services, Co.	Liberty Mutual Group Inc.
AMBCO Capital Corporation	Liberty Mutual Holding Company Inc.
America First Insurance Company	Liberty Mutual Insurance Company
America First Lloyds Insurance Company	Liberty Mutual Personal Insurance Company
American Ambassador Casualty 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 U.S. P&C Corporation
American States Preferred Insurance*	LIH-RE of America Corporation
Avomark Insurance Company	LIU Specialty Insurance Agency Inc.
Berkeley Holding Company Associates, Inc.	LM General Insurance Company

NOTES TO FINANCIAL STATEMENTS

Berkeley Management Corporation	LM Insurance Corporation
Bridgefield Casualty Insurance Company	LM Personal Insurance Company
Bridgefield Employers Insurance Company	LM Property & Casualty Insurance Company
Capitol Court Corporation*	LMHC Massachusetts Holdings Inc.
Capitol Agency, Inc., The (Arizona corporation)	LRE Properties, Inc.
Capitol Agency, Inc., The (Ohio corporation)	Mid-American Agency, Inc.
Capitol Agency, Inc., The (Tennessee corporation)	Mid-American Fire & Casualty Company
Cascade Disability Management, Inc.	Missouri Agency, Inc.
Colorado Casualty Insurance Company	North Pacific Insurance Company
Commercial Aviation Insurance, Inc.*	OCASCO Budget, Inc.
Companies Agency Insurance Services of California (dissolved 8/15/2008)	OCI Printing, Inc.
Companies Agency of Alabama, Inc. (dissolved 8/18/2008)	Ohio Casualty Corporation
Companies Agency of Georgia, Inc. (dissolved 8/15/2008)	Ohio Casualty of New Jersey, Inc.
Companies Agency of Kentucky, Inc. (dissolved 8/14/2008)	Ohio Life Brokerage Services, Inc.
Companies Agency of Massachusetts, Inc. (dissolved 8/29/08)	Ohio Security Insurance Company
Companies Agency of Michigan, Inc. (dissolved 8/15/2008)	Open Seas Solutions, Inc.*
Companies Agency of New York, Inc.	Oregon Automobile Insurance Company
Companies Agency of Pennsylvania, Inc.	Peerless Indemnity Insurance Company
Companies Agency of Phoenix, Inc.	Peerless Insurance Company
Consolidated Insurance Company	Pilot Insurance Services, Inc.*
Copley Venture Capital, Inc.	Rianoc Research Corporation*
Countrywide Services Corporation (dissolved 10/17/2008)	S.C. Bellevue, Inc.*
Diversified Settlements, Inc.	Safecare Company, Inc.*
Emerald City Insurance Agency, Inc.*	Safeco Corporation*
Employers Insurance Company of Wausau	Safeco General Agency, Inc.*
Excelsior Insurance Company	Safeco Insurance Company of America*
F.B. Beattie & Company, Inc.*	Safeco Insurance Company of Illinois*
First National Insurance Company of America*	Safeco Insurance Company of Indiana*
Florida State Agency, Inc.	Safeco Insurance Company of Oregon*
General America Corporation*	Safeco Lloyds Insurance Company*
General America Corporation of Texas *	Safeco National Insurance Company*
General Insurance Company of America*	Safeco Properties, Inc.*
Globe American Casualty Company	Safeco Surplus Lines Insurance Company*
Golden Eagle Insurance Corporation	San Diego Insurance Company
Gulf States AIF, Inc.	SCIT, Inc. *
Hawkeye-Security Insurance Company	St. James Insurance Company Ltd.
Heritage-Summit HealthCare, Inc.	State Agency, Inc. (Indiana corporation)
Indiana Insurance Company	State Agency, Inc. (Wisconsin corporation)
Insurance Company of Illinois*	Summit Consulting, Inc.
LEXCO Limited	Summit Consulting, Inc. of Louisiana
Liberty - USA Corporation	Summit Holding Southeast, Inc.
Liberty Assignment Corporation	The First Liberty Insurance Corporation
Liberty Energy Canada, Inc.	The Midwestern Indemnity Company
Liberty Financial Services, Inc.	The National Corporation
Liberty Hospitality Group, Inc.	The Netherlands Insurance Company
Liberty Insurance Company of America	The Ohio Casualty Insurance Company
Liberty Insurance Corporation	Wausau Business Insurance Company
Liberty Insurance Holdings, Inc.	Wausau General Insurance Company
Liberty Insurance Underwriters, Inc.	Wausau Service Corporation
Liberty Life Assurance Company of Boston	Wausau Underwriters Insurance Company
Liberty Life Holdings, Inc.	West American Insurance Company
Liberty Lloyds of Texas Insurance Company	Winmar Company, Inc.*
Liberty Management Services, Inc.	Winmar of the Desert, Inc.*
Liberty Mexico Holdings, Inc.	Winmar Oregon, Inc.*
Liberty Mutual Fire Insurance Company	Winmar-Metro, Inc.*

* This company joined the consolidated group in 2008 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.

NOTES TO FINANCIAL STATEMENTS

Note 10- Information concerning Parent, Subsidiaries and Affiliates

A. As of December 31, 2008, all of the outstanding shares of capital stock of the Company are held by Peerless Insurance Company ("PIC"), a New Hampshire insurance company. PIC is wholly owned by LIH US P&C Corporation, a Delaware company. LIH US P&C Corporation is wholly owned by Liberty Insurance Holdings, Inc., an insurance holding company incorporated in the state of Delaware. Liberty Insurance Holdings, Inc. is wholly owned by Liberty Mutual Insurance Company (LMIC 93%), an insurance company incorporated in Massachusetts, Liberty Mutual Fire Insurance Company (LMFIC 4%), a Wisconsin insurance company, and Employers Insurance Company of Wausau (EICOW 3%), a Wisconsin insurance company. The ultimate parent of LMIC, LMFIC and EICOW is Liberty Mutual Holding Company, Inc., a Massachusetts company.

B. Transactions entered into by the Company with its affiliates are described on Schedule Y Part 2.

Transactions between the Company and its affiliates are described in Schedule Y Part 2.

During 2008, the Company had the following capital transactions with its subsidiaries.

1. Received an ordinary dividend in the amount of \$6,323,610
2. Returned capital in the amount of \$59,443,565 to its parent. The returned capital consisted of the Company's subsidiary, San Diego Insurance Company, which was transferred at its statutory book value on the date of transfer.

C. Refer to Notes 10F, 22 and 25.

D. At December 31, 2008, the Company reported \$2,638,151 due to affiliates. In general, the terms of the inter-company arrangements require settlement at least quarterly.

E. The Company has made no guarantee or initiated undertaking for the benefit of affiliates which result in a material contingent exposure of the Company's or affiliates' assets or liabilities.

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

The Company entered into a management services agreement, effective August 21, 1997, with LMIC. Under the agreement, LMIC may provide services related to common management functions including, but not limited to, accounting, financial, tax and auditing, information technology and support, purchasing, payroll and employee benefits, policy administration, real estate management, legal, general administration, as well as consulting and other services as the parties may request.

The Company is party to a services agreement with SDIC effective August 21, 1997.

The Company entered into a services agreement (the "Agreement"), effective January 1, 2000, with PIC and other affiliates. The Agreement allows all parties to the Agreement to provide services related to common management functions including, but not limited to, coordinating marketing and advertising, information systems support, payroll and human resources services, actuarial support, accounting and other financial services, as well as consulting and other services as the parties may request.

The Company entered into investment management agreements, effective May 26, 1999 with LMIC, and effective May 1, 2000 with Liberty Mutual Investment Advisors LLC (LMIA). Under these agreements, LMIC and LMIA provide investment management services to the Company.

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

The Company entered into an agreement for a loan or extension of credit effective May 22, 2006; namely a revolving credit agreement under which the Company may borrow up to \$50,000,000 from LMIC. The purpose of the extension of credit is for operating liquidity to accommodate fluctuations in daily cash flow and to promote efficient management of investments. As of December 31, 2008, there have been no drawings under this agreement.

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

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

H. The Company does not own shares of an upstream company, either directly or indirectly.

I. The Company has no investments in subsidiary, controlled or affiliated companies.

J. The Company did not recognize any impairment write down for its subsidiary, controlled, or affiliated companies during the statement period.

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

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

Note 11- Debt

Not applicable

NOTES TO FINANCIAL STATEMENTS

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

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

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

1. The Company has 26,000 shares authorized, issued, and outstanding as of December 31, 2008. All shares have a stated par value of \$100.
2. Preferred Stock
Not applicable.
3. Dividend restrictions
There are no dividend restrictions.
4. The Company paid an ordinary dividend of \$32,473,185 and an extraordinary dividend of \$64,770,971 in June.
5. The maximum amount of dividends that can be paid by California-domiciled insurance companies to shareholders without prior approval of the Insurance Commissioner is the greater of (a) 10% of surplus, or (b) net income. Dividends may only be paid from unassigned funds, as required to be reported on the insurers Annual Statement, unless the Commissioner has given approval prior to payment. The maximum dividend payout that may be made without prior approval in 2009 is \$16,066,264.
6. The Company does not have restricted surplus.
7. The Company had no advances to surplus.
8. The Company did not hold stock for special purposes.
9. The Company does not have special surplus funds.
10. The portion of unassigned funds represented by cumulative unrealized capital loss is (\$8,895,589) after applicable deferred taxes of \$4,789,933.
11. Surplus Notes
Not applicable
12. Quasi re-organization (dollar impact)
Not applicable
13. Quasi re-organization (effective date)
Not applicable

Note 14- Contingencies

A. Contingent Commitments

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

B. Assessments

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

The Company has accrued a liability for guaranty fund and other assessments of \$4,587,750 that is offset by future premium tax credits of \$554,195. This represents management's best estimate based on information received from the states in which the Company writes business and may change due to factors including the Company's share of the ultimate cost of current insolvencies. Current assessments are expected to be paid out in the next five years, while premium tax offsets are expected to be realized in the next eleven years, beginning in 2008.

During 2008 there were no material insolvencies to report. The company continues to remit payments relating to prior year insolvencies.

NOTES TO FINANCIAL STATEMENTS

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	\$586,151

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

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

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

(f) Per Claim (g) Per Claimant

E. All other Contingencies

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

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

Note 15- Leases

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

Year(s)	Operating Lease Arrangements
2009	\$1,047,968
2010	1,056,076
2011	897,210
2012	557,685
2013	332,979
2014 & thereafter	1,479,860
Total	<u>\$5,371,778</u>

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

Not applicable

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

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

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

A. Transfers of Receivables reported as sales:

The Company did not sell premium receivables.

B. Transfers and servicing of financial assets:

The Company participates in a Securities Lending Program to generate additional income, whereby certain fixed income and mortgage backed securities are loaned for a period of time from the Company's portfolio to qualifying third parties, via a lending agent. The Company does not participate in term loans; therefore, the Company does not have contractual collateral transactions that extend beyond one year from the reporting date. Borrowers of these securities provide collateral equal to or in excess of 102% of the fair value of the loaned securities. Acceptable collateral may be in the form of cash, Agency and U.S. Government securities. The fair value of the loaned securities is monitored and additional collateral is obtained if the fair value of the collateral falls below 102% of the fair 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

NOTES TO FINANCIAL STATEMENTS

liability on the balance sheet, as the Company can exercise discretion as to how the collateral is invested. The loaned securities remain a recorded asset of the Company.

At December 31, 2008 the total fair value of securities on loan was \$14,927,408 with corresponding collateral value of \$15,633,262 of which \$13,678,386 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 Plans and the Uninsured Portion of Partially Insured Plans

A. Administrative Services Only (ASO) Plans

Not applicable

B. Administrative Services Contract (ASC) Plans

Not applicable

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts

Not applicable

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

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

Note 20- Other Items

A. The Company has no extraordinary items to report.

B. Troubled Debt Restructuring for Debtors

Not applicable

C. Other Disclosures

1. Assets in the amount of \$2,048,636 and \$2,045,241 as of December 31, 2008 and 2007, respectively, were on deposit with government authorities or trustees as required by law.

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

E. Business Interruption Insurance Recoveries

The Company does not purchase business interruption coverage.

F. State Transferable Tax Credits

The Company does not hold transferable state tax credits.

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

H. The Company has not entered into Federal Home Loan Bank Agreements.

Note 21- Events Subsequent

There were no events subsequent to December 31, 2008 which would require disclosure.

Note 22- Reinsurance

A. Excluding amounts arising pursuant to the inter-company Reinsurance Agreement, as described in Note 25, there are no unsecured reinsurance recoverables with an individual reinsurer which exceed 3% of policyholders surplus.

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

NOTES TO FINANCIAL STATEMENTS

C. Reinsurance Assumed & Ceded

1. The following table sets forth the maximum return premium and commission equity due the reinsurer or the Company if all of the Company's assumed and ceded reinsurance were canceled as of December 31, 2008.

	<u>Assumed Reinsurance</u>		<u>Ceded Reinsurance</u>		<u>Net Reinsurance</u>	
	UEP	Commission Equity	UEP	Commission Equity	UEP	Commission Equity
Affiliates	\$177,063,114	\$12,153,451		\$10,323,347	\$112,993,567	\$1,830,104
			\$64,069,547			
All Other	0	0	0	0	0	0
Total	\$177,063,114	\$12,153,451		\$10,323,347	\$112,993,567	\$1,830,104
			\$64,069,547			

Direct unearned premium reserve of \$64,069,510

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, 2008 are as follows:

Direct	\$0
Assumed	10,002,511
Ceded	0
Net	<u>\$10,002,511</u>

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

D. The Company did not write off any uncollectible balances in 2008.

E. The Company has not recorded any commutations in the current year.

F. The Company has one assumed retroactive contract that transferred liabilities for losses that had already occurred. The impact of the Inter-Company Reinsurance Agreement is also shown.

		Assumed	Ceded
a.	Reserves Transferred:		
	1. Initial Reserves	\$35,587,351	\$0
	2. Adjustment – Prior Year(s)	(25,620,781)	0
	3. Adjustment – Current Year	(1,186,718)	0
	4. Total	8,779,853	
b.	Consideration Paid or Received:		
	1. Initial Reserves	35,587,351	0
	2. Adjustment – Prior Year(s)	1,042,480	0
	3. Adjustment – Current Year		0
	4. Total	36,629,831	0
c.	Amounts Recovered / Paid - Cumulative		
	1. Initial Reserves		0
	2. Adjustment – Prior Year(s)	31,356,014	0
	3. Adjustment – Current Year	1,045,920	0
	4. Total	32,401,934	0
d.	Special Surplus from Retroactive Reinsurance		
	1. Initial Reserves	\$0	0
	2. Adjustment – Prior Year(s)	(4,692,753)	0
	3. Adjustment – Current Year	140,797	0
	4. Total		0
	5. Cumulative Total Transferred to Unassigned Funds	(4,551,956)	0
e.	Other insurers included in the above transactions:		
	Peerless Insurance Company, 24198	\$8,779,853	\$0

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. There are no contracts recorded as deposit accounting.

NOTES TO FINANCIAL STATEMENTS

Note 23 - Retrospectively Rated Contracts and Contracts Subject to Redetermination

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

a. Total accrued retro premium	\$2,357,653
b. Less: Non-admitted amount	211,979
c. Admitted amount	2,145,674

Note 24 - Changes in Incurred Losses and Loss Adjustment Expenses

Incurred loss and loss adjustment expense attributed to insured events of prior years has decreased during 2008, primarily as a result of improving loss trends in the Commercial Multiple Peril, Commercial Auto Liability, Workers' Compensation, Other Liability, and Private Passenger Auto Liability lines of business. Prior estimates are revised as additional information becomes known regarding individual claims.

Note 25- Intercompany Pooling Arrangements

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

		NAIC Co. #	Pooling %	Lines of Business
Lead Company	Peerless Insurance Company (PIC)	24198	42.00%	All Lines
Affiliated Pool Companies:	Peerless Indemnity Insurance Company (PIIC)	18333	5.00%	All Lines
	Golden Eagle Insurance Corporation (GEIC)	10836	7.00%	All Lines (Except WC)
	Indiana Insurance Company (IIC)	22659	8.00%	All Lines
	The Netherlands Insurance Company (NIC)	24171	3.00%	All Lines
	American Fire and Casualty Company (AFCC)	24066	1.00%	All Lines
	The Ohio Casualty Insurance Company (OCIC)	24074	34.00%	All Lines
	Avomark Insurance Company (AIC)	10798	0.00%	All Lines
	American Ambassador Casualty Company (AACC)	10073	0.00%	All Lines
	America First Insurance Company (AFIC)	12696	0.00%	All Lines
	America First Lloyd's Insurance Company (AFLIC)	11526	0.00%	All Lines
	Colorado Casualty Insurance Company (CCIC)	41785	0.00%	All Lines
	Consolidated Insurance Company (CIC)	22640	0.00%	All Lines
	Excelsior Insurance Company (EIC)	11045	0.00%	All Lines
	Globe American Casualty Company (GACC)	11312	0.00%	All Lines
	Hawkeye-Security Insurance Company (HSIC)	36919	0.00%	All Lines
	Liberty Mutual Mid-Atlantic Insurance Company (LMMAIC)	14486	0.00%	All Lines
	Mid-American Fire & Casualty Company (MAFCC)	23507	0.00%	All Lines
	Montgomery Mutual Insurance Company (MMC)	14613	0.00%	All Lines
	The Midwestern Indemnity Insurance Company (MWIC)	23515	0.00%	All Lines
	National Insurance Association (NIA)	27944	0.00%	All Lines
	Ohio Casualty of New Jersey, Inc. (OCNJ)	10937	0.00%	All Lines
	Ohio Security Insurance Company (OSIC)	24082	0.00%	All Lines
	West American Insurance Company (WAIC)	44393	0.00%	All Lines
			100.00%	
100% Quota Share Affiliated Companies:	Liberty Northwest Insurance Corporation (LNW)	41939	0.00%	All Lines
	Bridgefield Casualty Insurance Company (BCIC)	10335	0.00%	All Lines
	Bridgefield Employers Insurance Company (BEIC)	10701	0.00%	All Lines
	North Pacific Insurance Company (NPIC)	23892	0.00%	All Lines
	Oregon Automobile Insurance Company (OAIC)	23922	0.00%	All Lines

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

- (a) Each Affiliated Pool Company cedes its net underwriting activity to the Lead Company.
- (b) Each 100% Quota Share Affiliated Company cedes its net underwriting activity to the Lead Company.

NOTES TO FINANCIAL STATEMENTS

- (c) After recording the assumed affiliate transactions noted above, the Lead Company records 100% of its external assumed and ceded reinsurance activity.
- (d) The Lead Company's remaining underwriting activity, after processing all internal and external reinsurance is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above.
- (e) There were no members that are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement that have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.
- (f) There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the Lead Company and corresponding entries on the assumed and ceded reinsurance schedules of other pooled participants.
- (g) The write-off of uncollectible reinsurance is pooled and the Provision for Reinsurance is recognized by the entity placing the outbound external reinsurance.
- (h) At December 31, 2008, the Company had \$555,000 due from the lead company in the Peerless Pool.

Effective January 1, 2008, the PIC Amended and Restated Reinsurance Pooling Agreement was amended to adjust pooling percentages and add the affiliates noted below. Concurrently, each company noted below terminated their existing inter-company reinsurance agreements.

American Fire and Casualty Company
Avomark Insurance Company
National Insurance Association
Ohio Casualty of New Jersey, Inc.
Ohio Security Insurance Company
The Ohio Casualty Insurance Company
West American Insurance Company

Effective January 1, 2008 Bridgefield Employers Insurance Company and Bridgefield Casualty Insurance Company novated their 100% quota share agreements with Liberty Mutual Insurance Company to substitute PIC as the reinsurer.

Effective January 1, 2009, the PIC Amended and Restated Reinsurance Pooling Agreement was amended to adjust pooling percentages and add the affiliates noted below. Concurrently, each company noted below terminated their existing inter-company reinsurance agreements.

American Economy Insurance Company
American States Insurance Company
American States Insurance Company of Texas
American States Lloyds Insurance Company
American States Preferred Insurance Company
First National Insurance Company of America
General Insurance Company of America
Insurance Company of Illinois
Safeco Insurance Company of America
Safeco Insurance Company of Illinois
Safeco Insurance Company of Indiana
Safeco Insurance Company of Oregon
Safeco Lloyds Insurance Company
Safeco National Insurance Company
Safeco Surplus Lines Insurance Company

Therefore, effective January 1, 2009, the PIC Amended and Restated Reinsurance Pooling Agreement consisted of the following affiliated companies:

		<u>NAIC Co. #</u>	<u>Pooling %</u>	<u>Lines of Business</u>
Lead Company	Peerless Insurance Company	24198	25.20%	All Lines
Affiliated Pool Companies:	America First Insurance Company	12696	0.00%	All Lines
	America First Lloyd's Insurance Company	11526	0.00%	All Lines
	American Ambassador Casualty Company	10073	0.00%	All Lines
	Colorado Casualty Insurance Company	41785	0.00%	All Lines
	Consolidated Insurance Company	22640	0.00%	All Lines
	Excelsior Insurance Company	11045	0.00%	All Lines
	Globe American Casualty Company	11312	0.00%	All Lines
	Golden Eagle Insurance Corporation	10836	3.00%	All Lines (Except WC)
	Hawkeye-Security Insurance Company	36919	0.00%	All Lines
	Indiana Insurance Company	22659	4.80%	All Lines
	Liberty Mutual Mid-Atlantic Insurance Company	14486	0.00%	All Lines

NOTES TO FINANCIAL STATEMENTS

Mid-American Fire & Casualty Company	23507	0.00%	All Lines
The Midwestern Indemnity Company	23515	0.00%	All Lines
Montgomery Mutual Insurance Company	14613	0.00%	All Lines
The Netherlands Insurance Company	24171	1.80%	All Lines
Peerless Indemnity Insurance Company	18333	3.00%	All Lines
National Insurance Association	27944	0.00%	All Lines
The Ohio Casualty Insurance Company	24074	20.40%	All Lines
Avomark Insurance Company	10798	0.00%	All Lines
West American Insurance Company	44393	0.00%	All Lines
American Fire and Casualty Company	24066	0.60%	All Lines
Ohio Security Insurance Company	24082	0.00%	All Lines
Ohio Casualty of New Jersey, Inc.	10937	0.00%	All Lines
Insurance Company of Illinois (ICI)	26700	0.00%	All Lines
Safeco Insurance Company of Illinois (SICIL)	39012	2.00%	All Lines
American Economy Insurance Company (AEIC)	19690	5.60%	All Lines
American States Insurance Company (ASIC)	19704	7.60%	All Lines
American States Preferred Insurance Company (ASPIC)	37214	0.80%	All Lines
Safeco Insurance Company of Indiana (SICIN)	11215	0.00%	All Lines
Safeco National Insurance Company (SNIC)	24759	0.00%	All Lines
Safeco Insurance Company of Oregon (SICO)	11071	0.00%	All Lines
American States Lloyds Insurance Company (ASLIC)	31933	0.00%	All Lines
Safeco Lloyds Insurance Company (SLIC)	11070	0.00%	All Lines
First National Insurance Company of America (FNICA)	24724	0.80%	All Lines
General Insurance Company of America (GICA)	24732	9.20%	All Lines
Safeco Insurance Company of America (SICA)	24740	15.20%	All Lines
Safeco Surplus Lines Insurance Company (SSLIC)	11100	0.00%	All Lines
American States Insurance Company of Texas (ASICT)	19712	0.00%	All Lines
		100.00%	

100% Quota
Share Affiliated
Companies:

Liberty Northwest Insurance Corporation (LNW)	41939	0.00%	All Lines
Bridgefield Casualty Insurance Company (BCIC)	10335	0.00%	All Lines
Bridgefield Employers Insurance Company (BEIC)	10701	0.00%	All Lines
North Pacific Insurance Company (NPIC)	23892	0.00%	All Lines
Oregon Automobile Insurance Company (OAIC)	23922	0.00%	All Lines

Note 26- Structured Settlements

- A. As a result of purchased annuities with the claimant as payee, the Company no longer carries reserves of \$3,941,559 after applying Inter-Company Reinsurance Agreement percentages. The Company is contingently liable should the issuers of the purchased annuities fail to perform under the terms of the annuities. The amount of unrecorded loss contingencies related to the purchased annuities was \$3,941,559 as of December 31, 2008.
- 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 27 - Health Care Receivables

Not applicable

Note 28 - Participating Policies

Not applicable

Note 29 – Premium Deficiency Reserves

As of December 31, 2008, the Company had no liabilities related to premium deficiency reserves. The Company considers anticipated investment income when calculating its premium deficiency reserves.

Note 30- High Dollar Deductible Policies

The Company does not have high deductible policies.

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

For Workers Compensation, the Company discounts its reserves for unpaid losses using a tabular discount on the long-term annuity portion of certain workers compensation claims. The tabular discount is based on the Unit Statistical Plan tables as approved by the respective states at an annual discount rate of 3.5%. The December 31, 2008 liabilities subject to discount were carried at a value representing a discount of \$8,082,619 net of all reinsurance.

NOTES TO FINANCIAL STATEMENTS

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

Note 32 - Asbestos/Environmental Reserves

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

Factors Contributing to Uncertainty in Establishing Adequate Reserves

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

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

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

Uncertainty Regarding Reserving Methodologies

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

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

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

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

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

Asbestos:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Direct Basis					
Beginning Reserves	3,836,551	3,926,871	4,366,320	4,547,847	3,793,668
Incurred losses and LAE	425,676	817,854	450,374	(290,918)	200,705
Calendar year payments	335,356	378,405	268,847	323,258	312,391
Ending Reserves	<u>3,926,871</u>	<u>4,366,320</u>	<u>4,547,847</u>	<u>3,933,671</u>	<u>3,681,982</u>

NOTES TO FINANCIAL STATEMENTS

Assumed Reinsurance Basis

Beginning Reserves	170,998	108,106	627,698	555,186	897,930
Incurred losses and LAE	29,955	558,253	(65,557)	18,936	82,100
Calendar year payments	92,847	38,661	6,955	25,132	128,314
Ending Reserves	108,106	627,698	555,186	548,990	851,716

Net of Ceded Reinsurance Basis

Beginning Reserves	3,141,309	3,070,211	3,716,968	3,831,087	3,527,891
Incurred losses and LAE	282,680	1,060,051	315,560	(193,504)	428,359
Calendar year payments	353,778	413,294	201,441	323,338	383,370
Ending Reserves	3,070,211	3,716,968	3,831,087	3,314,245	3,572,880

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

Direct Basis	2,961,184
Assumed Reinsurance Basis	476,653
Net of Ceded Reinsurance Basis	3,134,806

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

Direct Basis	1,339,830
Assumed Reinsurance Basis	-
Net of Ceded Reinsurance Basis	1,305,498

Environmental:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Direct Basis					
Beginning Reserves	3,739,404	4,670,960	5,038,003	5,070,284	5,986,953
Incurred losses and LAE	1,373,429	976,232	841,934	3,581,733	207,651
Calendar year payments	441,873	609,189	809,653	992,389	1,233,797
Ending Reserves	4,670,960	5,038,003	5,070,284	7,659,628	4,960,807

Assumed Reinsurance Basis

Beginning Reserves	418,525	385,689	519,536	473,163	441,213
Incurred losses and LAE	7,489	144,819	12,492	19,511	(52,249)
Calendar year payments	40,325	10,972	58,865	7,347	4,182
Ending Reserves	385,689	519,536	473,163	485,327	384,782

Net of Ceded Reinsurance Basis

Beginning Reserves	4,078,625	4,739,769	4,955,792	4,911,933	6,158,102
Incurred losses and LAE	1,185,217	818,440	719,626	3,896,991	(340,944)
Calendar year payments	524,073	602,417	763,485	884,809	1,206,585
Ending Reserves	4,739,769	4,955,792	4,911,933	7,924,115	4,610,573

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

Direct Basis	4,051,846
Assumed Reinsurance Basis	294,186
Net of Ceded Reinsurance Basis	3,737,155

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

Direct Basis	689,673
Assumed Reinsurance Basis	-
Net of Ceded Reinsurance Basis	751,662

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

Note 33- Subscriber Savings Accounts

The Company is not a reciprocal insurance company.

Note 34 - Multiple Peril Crop Insurance

Not Applicable

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? California
- 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. 12/31/2004
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2004
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 07/05/2006
- 3.4 By what department or departments?
 California Department of Insurance

- 3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments? Yes No N/A
- 3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes No N/A
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes No
- 4.12 renewals? Yes No
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes No
- 4.22 renewals? Yes No
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes No
- 5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

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

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes No

GENERAL INTERROGATORIES

6.2 If yes, give full information:

.....

7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [] No [X]

7.2 If yes,

7.21 State the percentage of foreign control. _____

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

1 Nationality	2 Type of Entity
.....

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

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

.....

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

8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e., the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

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

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

Ernst & Young, LLP
 200 Clarendon Street
 Boston MA 02116

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

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

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

11.11 Name of real estate holding company _____
 11.12 Number of parcels involved _____
 11.13 Total book/adjusted carrying value \$ _____

11.2 If yes, provide explanation:

.....

GENERAL INTERROGATORIES

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

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

.....

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

Yes No

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

Yes No

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

Yes No N/A

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

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

Yes No

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

.....

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

Yes No

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

Liberty Mutual Group's Code of Business Ethics and Conduct was revised effective March 2008. It continues to contain all substantive areas of company policy and requirements included in the prior Code, but has been rewritten to enhance clarity and readability and provide additional practical guidance. This applies to all Liberty Mutual Group companies.

.....

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

Yes No

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

.....

BOARD OF DIRECTORS

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

Yes No

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

Yes No

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

Yes No

FINANCIAL

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

Yes No

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

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

GENERAL INTERROGATORIES

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

INVESTMENT

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

- 22.3 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 16 where this information is also provided)
 Please Reference note 17B

- 22.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes No
- 22.5 If answer to 22.4 is yes, report amount of collateral. \$ 15,633,262
- 22.6 If answer to 22.4 is no, report amount of collateral. \$ _____
- 23.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 19.1 and 22.3.) Yes No
- 23.2 If yes, state the amount thereof at December 31 of the current year:
- | | | | |
|--|--|----|-----------|
| | 23.21 Subject to repurchase agreements | \$ | |
| | 23.22 Subject to reverse repurchase agreements | \$ | |
| | 23.23 Subject to dollar repurchase agreements | \$ | |
| | 23.24 Subject to reverse dollar repurchase agreements | \$ | |
| | 23.25 Pledged as collateral | \$ | |
| | 23.26 Placed under option agreements | \$ | |
| | 23.27 Letter stock or securities restricted as to sale | \$ | |
| | 23.28 On deposit with state or other regulatory body | \$ | 2,048,637 |
| | 23.29 Other | \$ | 0 |

GENERAL INTERROGATORIES

23.3 For category (23.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

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

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

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

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

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

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

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

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

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

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

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

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

1 Central Registration Depository Number(s)	2 Name(s)	3 Address
N/A	Liberty Mutual Insurance Company	175 Berkeley St., Boston, MA 02116
N/A	Liberty Mutual Investment Advisors, LL	175 Berkeley St., Boston, MA 02116

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

GENERAL INTERROGATORIES

27.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
42982#-10-0	LMIA HIGH YIELD FUND	35,228,178
		0
		0
27.2999 TOTAL		35,228,178

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

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation
LMIA HIGH YIELD FUND	JP MORGAN PRIME-CAPITAL	2,276,346	12/31/2008
LMIA HIGH YIELD FUND	ALLIED WASTE NORTH AMER	981,360	12/31/2008
LMIA HIGH YIELD FUND	DRS TECHNOLOGIES INC	742,037	12/31/2008
LMIA HIGH YIELD FUND	MULTIPLAN INC	666,028	12/31/2008
LMIA HIGH YIELD FUND	VENTAS REALTY LP/CAP CR	583,769	12/31/2008
LMIA HIGH YIELD FUND	WILLIAMS PARTNERS LP/WIL	575,647	12/31/2008

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

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
28.1 Bonds	752,854,160	724,851,165	(28,002,995)
28.2 Preferred stocks	23,100	23,100	0
28.3 Totals	752,877,260	724,874,265	(28,002,995)

28.4 Describe the sources or methods utilized in determining the fair values:
IDC, BLOOMBERG, NAIC-SVO, BROKER QUOTES, ANALYTICALLY DETERMINED

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

Yes No

29.2 If no, list exceptions:

.....

.....

.....

OTHER

30.1 Amount of payments to Trade associations, service organizations and statistical or Rating Bureaus, if any? \$ 173,012

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

1 Name	2 Amount Paid
Insurance Services Office Inc.	168,977
	0
	0

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

GENERAL INTERROGATORIES

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

1 Name	2 Amount Paid
	0
	0
	0

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

\$ 0

32.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total 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. \$ _____

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

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. \$ _____

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

1.6 Individual policies:

Most current three years:

1.61 Total premium earned \$ _____

1.62 Total incurred claims \$ _____

1.63 Number of covered lives _____

All years prior to most current three years:

1.64 Total premium earned \$ _____

1.65 Total incurred claims \$ _____

1.66 Number of covered lives _____

1.7 Group policies:

Most current three years:

1.71 Total premium earned \$ _____

1.72 Total incurred claims \$ _____

1.73 Number of covered lives _____

All years prior to most current three years:

1.74 Total premium earned \$ _____

1.75 Total incurred claims \$ _____

1.76 Number of covered lives _____

2. Health Test:

	1		2	
	Current Year		Prior Year	
2.1 Premium Numerator	\$ 1,129		\$ 0	
2.2 Premium Denominator	\$ 418,689,237		\$ 477,069,626	
2.3 Premium Ratio (2.1/2.2)	0.00		0.00	
2.4 Reserve Numerator	\$ 0		\$ 0	
2.5 Reserve Denominator	\$ 707,149,538		\$ 762,044,687	
2.6 Reserve Ratio (2.4/2.5)	0.00		0.00	

3.1 Does the reporting entity issue both participating and non-participating policies? Yes [] No [X]

3.2 If yes, state the amount of calendar year premiums written on:

3.21 Participating policies \$ _____

3.22 Non-participating policies \$ _____

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? _____

4.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums. \$ _____

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 2008 the Company purchased Workers' Compensation Catastrophe reinsurance separately and/or with the Liberty Mutual Group with limits of \$1,038m part of \$1,175m xs \$25m.

.....

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

- 6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process:
 The Company employs industry recognized catastrophe modeling software to estimate the Probable Maximum Loss. For property exposures, we employ RiskLink V7.0 from RMS and AIR Classic/2 v8.0 For WC, Liberty Mutual utilizes RiskLink v7.0 from RMS.
- 6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss?
 The Company has in force \$700m part of \$800m xs \$50m of traditional XOL reins. Additionally, traditional XOL reins. with limits of \$20m xs \$30m was purchased for risks in the Midwest. Also, in Dec 2008 the Company purchased a 31.725% QS treaty for its US HO portfolio.
- 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 [X] 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 catastrophe 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 [X] No []
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions. 1
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes [] No [X]
- 8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? Yes [] No [X]
- 8.2 If yes, give full information
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
 (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
 (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 (c) Aggregate stop loss reinsurance coverage;
 (d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
 (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes [] No [X]
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:
 (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract. Yes [] No [X]
- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
 (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
 (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
 (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
 (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
 (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? Yes [] No [X]
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.
- 9.6 The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:
 (a) The entity does not utilize reinsurance; or, Yes [] No [X]
 (b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or Yes [] No [X]
 (c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement. Yes [] No [X]
10. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? Yes [X] No [] N/A []

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

11.1 Has the reporting entity guaranteed policies issued by any other entity and now in force: Yes [] No [X]

11.2 If yes, give full information

12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 13.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:

12.11 Unpaid losses		\$ <u>6,815,136</u>
12.12 Unpaid underwriting expenses (including loss adjustment expenses)		\$ <u>503,103</u>

12.2 Of the amount on Line 13.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? \$ 1,903,390

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

12.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:

12.41 From		<u>0.00</u>
12.42 To		<u>9.00</u>

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

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

12.61 Letters of Credit		\$ <u>51,889,654</u>
12.62 Collateral and other funds		\$ <u>10,567,542</u>

13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ 27,537,538

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

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

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

14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants:
 Premiums and recoverables were allocated pursuant to separate intercompany agreements.

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

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

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

15.1 Has the reporting entity guaranteed any financed premium accounts? Yes [] No [X]

15.2 If yes, give full information

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

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

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

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	\$ _____
17.19 Unfunded portion of Interrogatory 17.18	\$ _____
17.20 Paid losses and loss adjustment expenses portion of Interrogatory 17.18	\$ _____
17.21 Case reserves portion of Interrogatory 17.18	\$ _____
17.22 Incurred but not reported portion of Interrogatory 17.18	\$ _____
17.23 Unearned premium portion of Interrogatory 17.18	\$ _____
17.24 Contingent commission portion of Interrogatory 17.18	\$ _____

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
	2008	2007	2006	2005	2004
Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	226,354,091	259,462,010	242,834,000	181,579,716	203,325,206
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	51,557,992	76,777,131	71,425,439	63,872,685	70,945,986
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	178,786,641	265,486,855	242,315,376	206,223,857	226,471,074
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	40,989,762	150,053	1,151,550	183,555	(2,047,788)
5. Nonproportional reinsurance lines (Lines 31, 32 & 33)					(373,956)
6. Total (Line 35)	497,688,486	601,876,049	557,726,365	451,859,813	498,320,522
Net Premiums Written (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	186,387,152	226,191,650	217,215,511	159,650,250	183,383,292
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	44,346,340	71,200,378	68,293,060	61,783,001	69,285,352
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	101,111,811	194,616,489	189,632,760	167,391,515	200,072,142
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	40,989,762	150,053	1,151,550	183,555	(2,047,788)
11. Nonproportional reinsurance lines (Lines 31, 32 & 33)					(373,956)
12. Total (Line 35)	372,835,065	492,158,570	476,292,881	389,008,321	450,319,042
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	12,501,110	8,053,251	1,383,045	6,101,548	143,439
14. Net investment gain (loss) (Line 11)	50,962,963	42,195,231	38,442,658	33,425,966	34,391,670
15. Total other income (Line 15)	(5,896,939)	(480,041)	678,869	(555,064)	205,390
16. Dividends to policyholders (Line 17)	2,733,319	1,148,151	1,283,655	631,528	479,018
17. Federal and foreign income taxes incurred (Line 19)	9,829,945	16,147,105	21,631,757	23,248,363	10,224,164
18. Net income (Line 20)	45,003,870	32,473,185	17,589,160	15,092,559	24,037,317
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	957,210,808	1,168,731,168	1,095,098,457	894,098,559	752,251,616
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	14,444,337	23,176,477	32,010,669	46,267,263	17,162,216
20.2 Deferred and not yet due (Line 13.2)	111,482,530	152,074,798	140,018,495	102,757,225	98,836,764
20.3 Accrued retrospective premiums (Line 13.3)	2,145,674	1,275,728	1,522,213		
21. Total liabilities excluding protected cell business (Page 3, Line 24)	776,354,776	856,310,765	815,609,053	606,844,476	488,364,368
22. Losses (Page 3, Line 1)	413,714,835	419,941,207	388,852,348	280,203,471	228,017,584
23. Loss adjustment expenses (Page 3, Line 3)	94,736,410	96,103,400	89,221,011	67,096,397	54,666,850
24. Unearned premiums (Page 3, Line 9)	177,063,114	224,190,545	209,492,751	186,991,678	179,590,789
25. Capital paid up (Page 3, Lines 28 & 29)	2,600,000	2,600,000	2,600,000	2,600,000	2,600,000
26. Surplus as regards policyholders (Page 3, Line 35)	180,856,032	312,420,403	279,489,404	287,254,083	263,887,248
Cash Flow (Page 5)					
27. Net cash from operations (Line 11)	25,518,951	94,623,491	172,148,701	68,839,862	(67,564,220)
Risk-Based Capital Analysis					
28. Total adjusted capital	180,856,032	312,420,403	279,489,404	287,254,083	263,887,248
29. Authorized control level risk-based capital	39,106,042	46,700,558	41,442,052	36,486,937	27,380,153
Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
30. Bonds (Line 1)	88.6	82.4	79.5	80.9	79.2
31. Stocks (Lines 2.1 & 2.2)	4.5	11.4	11.4	13.5	16.2
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)	7.0	6.1	8.5	5.4	4.2
35. Contract loans (Line 6)					
36. Other invested assets (Line 7)					0.3
37. Receivables for securities (Line 8)		0.0	0.6	0.1	0.0
38. Aggregate write-ins for invested assets (Line 9)					
39. Cash, cash equivalents and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
40. Affiliated bonds, (Sch. D, Summary, Line 25, Col. 1)					
41. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)					
42. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 1)		63,236,101	59,786,046	57,136,198	55,611,846
43. Affiliated short-term investments (Schedule DA Verification, Col. 5, Line 10)					
44. Affiliated mortgage loans on real estate					
45. All other affiliated					
46. Total of above Lines 40 to 45		63,236,101	59,786,046	57,136,198	55,611,846
47. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 46 above divided by Page 3, Col. 1, Line 35 x 100.0)		20.2	21.4	19.9	21.1

FIVE – YEAR HISTORICAL DATA**(Continued)**

	1	2	3	4	5
	2008	2007	2006	2005	2004
Capital and Surplus Accounts (Page 4)					
48. Net unrealized capital gains (losses) (Line 24)	(15,180,388)	1,182,536	2,922,042	347,430	5,303,600
49. Dividends to stockholders (Line 35)	(97,244,156)		(28,725,000)		
50. Change in surplus as regards policyholders for the year (Line 38)	(131,564,371)	32,930,999	(7,764,679)	23,366,835	28,902,522
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
51. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	127,245,313	131,185,063	56,348,735	112,302,489	300,278,536
52. Property lines (Lines 1, 2, 9, 12, 21 & 26)	32,310,757	32,469,835	28,202,995	26,557,390	25,728,664
53. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	128,377,957	108,444,760	86,596,200	72,630,600	35,627,401
54. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	(2,971,958)	38,023	336,378	95,084	14,071,861
55. Nonproportional reinsurance lines (Lines 31, 32 & 33)	49,477	19,417	(69,421)		4,651,884
56. Total (Line 35)	285,011,546	272,157,098	171,414,887	211,585,563	380,358,346
Net Losses Paid (Page 9, Part 2, Col. 4)					
57. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	92,365,014	100,692,137	17,291,274	69,928,453	233,243,542
58. Property lines (Lines 1, 2, 9, 12, 21 & 26)	29,999,660	31,177,729	27,381,668	25,185,487	24,322,338
59. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	106,045,479	81,959,735	73,969,217	60,227,288	12,446,049
60. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	(2,971,958)	45,023	265,144	95,084	14,071,861
61. Nonproportional reinsurance lines (Lines 31, 32 & 33)	49,477	19,417	(69,421)		4,651,884
62. Total (Line 35)	225,487,672	213,894,041	118,837,882	155,436,312	288,735,674
Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
63. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
64. Losses incurred (Line 2)	52.4	51.4	54.3	49.3	53.6
65. Loss expenses incurred (Line 3)	10.8	11.3	11.9	13.2	12.9
66. Other underwriting expenses incurred (Line 4)	33.8	35.6	33.5	35.9	33.8
67. Net underwriting gain (loss) (Line 8)	3.0	1.7	0.3	1.6	0.0
Other Percentages					
68. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 35 x 100.0)	39.5	34.6	31.8	35.4	25.9
69. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	63.2	62.7	66.2	62.5	66.5
70. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 35 divided by Page 3, Line 35, Col. 1 x 100.0)	206.2	157.5	170.4	135.4	170.6
One Year Loss Development (000 omitted)					
71. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2-Summary, Line 12, Col. 11)	(37,275)	(35,749)	(7,123)	(8,214)	3,136
72. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 71 above divided by Page 4, Line 21, Col. 1 x 100.0)	(11.9)	(12.8)	(2.5)	(3.1)	1.3
Two Year Loss Development (000 omitted)					
73. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2-Summary, Line 12, Col. 12)	(64,385)	(29,855)	2,475	(2,308)	14,917
74. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 73 above divided by Page 4, Line 21, Col. 2 x 100.0)	(23.0)	(10.4)	0.9	(1.0)	7.2

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	4,290	605	1,011	93	551	96	94	5,058	X X X
2. 1999	272,476	25,920	246,556	188,545	24,873	13,213	1,542	21,613	2,238	8,645	194,718	X X X
3. 2000	270,292	25,268	245,024	186,240	22,091	14,034	1,492	19,917	1,316	9,307	195,292	X X X
4. 2001	279,785	25,835	253,950	174,611	21,515	12,855	769	19,458	1,428	9,614	183,212	X X X
5. 2002	336,407	54,030	282,377	184,065	31,417	12,593	1,900	17,762	2,185	8,361	178,918	X X X
6. 2003	371,968	48,100	323,868	177,317	26,891	12,248	1,438	22,100	2,332	8,501	181,004	X X X
7. 2004	391,766	31,948	359,818	161,878	11,584	9,717	596	21,027	1,038	8,775	179,404	X X X
8. 2005	414,425	22,443	391,982	161,071	10,774	10,261	546	22,410	753	7,638	181,669	X X X
9. 2006	427,562	18,778	408,784	151,513	4,788	7,636	211	22,568	1,114	5,923	175,604	X X X
10. 2007	428,303	12,786	415,517	135,058	2,226	5,334	161	21,814	657	2,826	159,162	X X X
11. 2008	431,440	12,753	418,687	108,180	4,151	2,429	6	19,454	394	165	125,512	X X X
12. Totals	X X X	X X X	X X X	1,632,768	160,915	101,331	8,754	208,674	13,551	69,849	1,759,553	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	22,506	6,770	21,479	8,110	394	23	3,794	1,215	2,417	199	606	34,273	X X X
2. 1999	5,437	1,792	2,234	808	37		640	160	509	123	76	5,974	X X X
3. 2000	5,107	1,598	2,180	762	139		622	134	524	97	90	5,981	X X X
4. 2001	3,872	1,658	3,998	1,018	88	1	1,089	169	584	81	162	6,704	X X X
5. 2002	7,272	2,422	4,466	1,404	161	21	1,795	213	668	30	183	10,272	X X X
6. 2003	7,025	1,063	8,649	1,617	146	2	2,664	247	1,012	6	257	16,561	X X X
7. 2004	11,054	1,859	13,869	2,097	153		3,628	298	1,397		346	25,847	X X X
8. 2005	19,539	1,751	17,448	2,528	238		5,816	391	2,154		609	40,525	X X X
9. 2006	29,132	2,353	30,576	4,146	428		10,069	603	3,519		844	66,622	X X X
10. 2007	50,361	1,576	46,539	6,578	683	1	16,008	903	6,236	4	1,615	110,765	X X X
11. 2008	69,050	2,462	88,058	1,767	1,115		18,086	154	13,212	216	4,570	184,922	X X X
12. Totals	230,355	25,304	239,496	30,835	3,582	48	64,211	4,487	32,232	756	9,358	508,446	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	29,105	5,168
2. 1999	232,228	31,536	200,692	85,229	121,667	81,398				5,071	903
3. 2000	228,763	27,490	201,273	84,636	108,794	82,144				4,927	1,054
4. 2001	216,555	26,639	189,916	77,401	103,112	74,785				5,194	1,510
5. 2002	228,782	39,592	189,190	68,008	73,278	66,999				7,912	2,360
6. 2003	231,161	33,596	197,565	62,145	69,846	61,002				12,994	3,567
7. 2004	222,723	17,472	205,251	56,851	54,689	57,043				20,967	4,880
8. 2005	238,937	16,743	222,194	57,655	74,602	56,685				32,708	7,817
9. 2006	255,441	13,215	242,226	59,744	70,375	59,255				53,209	13,413
10. 2007	282,033	12,106	269,927	65,849	94,682	64,962				88,746	22,019
11. 2008	319,584	9,150	310,434	74,074	71,748	74,145				152,879	32,043
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	413,712	94,734

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	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	One Year	Two Year	
1. Prior	138,000	136,053	133,327	138,892	141,077	143,310	148,613	148,817	152,285	151,200	(1,085)	2,383	
2. 1999	165,377	170,583	171,826	174,490	176,492	177,810	179,402	180,279	181,457	181,264	(193)	985	
3. 2000	X X X	169,452	175,652	177,527	181,617	181,784	182,686	183,046	184,168	182,615	(1,553)	(431)	
4. 2001	X X X	X X X	170,407	168,467	171,586	172,320	172,579	171,291	174,111	171,839	(2,272)	548	
5. 2002	X X X	X X X	X X X	182,934	181,370	180,448	177,041	177,335	175,097	173,526	(1,571)	(3,809)	
6. 2003	X X X	X X X	X X X	X X X	186,674	181,461	177,281	177,046	179,359	177,348	(2,011)	302	
7. 2004	X X X	X X X	X X X	X X X	X X X	217,414	206,783	203,394	187,416	184,488	(2,928)	(18,906)	
8. 2005	X X X	X X X	X X X	X X X	X X X	X X X	228,302	219,466	203,071	199,027	(4,044)	(20,439)	
9. 2006	X X X	X X X	X X X	X X X	X X X	X X X	X X X	242,909	228,080	217,891	(10,189)	(25,018)	
10. 2007	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	254,721	243,292	(11,429)	X X X	
11. 2008	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	278,743	X X X	X X X	
											12. Totals	(37,275)	(64,385)

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
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		
1. Prior	000	40,053	64,897	81,235	90,840	97,065	102,932	108,116	111,750	116,353	X X X	X X X
2. 1999	80,261	120,002	139,003	152,975	161,538	167,460	170,379	172,604	174,034	175,343	X X X	X X X
3. 2000	X X X	79,213	121,746	141,921	156,420	165,080	170,322	173,559	175,438	176,691	X X X	X X X
4. 2001	X X X	X X X	77,838	116,633	134,459	147,641	154,423	159,227	162,304	165,182	X X X	X X X
5. 2002	X X X	X X X	X X X	70,714	110,021	130,990	146,789	155,358	160,182	163,341	X X X	X X X
6. 2003	X X X	X X X	X X X	X X X	74,445	113,194	132,713	146,539	156,442	161,236	X X X	X X X
7. 2004	X X X	X X X	X X X	X X X	X X X	73,175	115,489	136,622	150,239	159,415	X X X	X X X
8. 2005	X X X	X X X	X X X	X X X	X X X	X X X	77,840	122,164	144,596	160,012	X X X	X X X
9. 2006	X X X	X X X	X X X	X X X	X X X	X X X	X X X	82,461	129,889	154,150	X X X	X X X
10. 2007	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	85,753	138,005	X X X	X X X
11. 2008	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	106,452	X X X	X X X

SCHEDULE P – PART 4 – SUMMARY

Years in Which Losses Were Incurred	Bulk and IBNR Reserves On Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)									
	1	2	3	4	5	6	7	8	9	10
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. Prior	47,946	35,037	24,503	23,098	22,375	18,150	16,151	13,281	13,455	18,740
2. 1999	38,926	20,932	13,264	9,214	6,034	5,275	3,849	3,462	2,748	2,239
3. 2000	X X X	41,704	24,815	17,168	11,652	8,250	5,548	5,473	3,880	2,276
4. 2001	X X X	X X X	47,708	28,971	17,429	13,344	8,055	7,313	4,717	4,356
5. 2002	X X X	X X X	X X X	71,225	39,221	23,013	14,953	11,296	7,101	5,195
6. 2003	X X X	X X X	X X X	X X X	63,327	35,628	24,011	17,485	13,172	10,006
7. 2004	X X X	X X X	X X X	X X X	X X X	87,926	52,108	37,249	21,611	15,725
8. 2005	X X X	X X X	X X X	X X X	X X X	X X X	98,474	55,788	34,238	20,989
9. 2006	X X X	X X X	X X X	X X X	X X X	X X X	X X X	95,129	58,419	36,534
10. 2007	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	102,925	55,820
11. 2008	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	104,588

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated By States and Territories

States, Etc.	1	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4	5	6	7	8	9
		2	3						
	Active Status	Direct Premiums Written	Direct Premiums Earned						
1. Alabama	AL	N							
2. Alaska	AK	N							
3. Arizona	AZ	L	716,331	1,022,590	414,540	231,631	1,009,195	3,531	
4. Arkansas	AR	N							
5. California	CA	L	124,137,090	116,746,475	55,435,304	55,757,482	169,582,372	611,969	
6. Colorado	CO	N							
7. Connecticut	CT	N							
8. Delaware	DE	N							
9. District of Columbia	DC	N							
10. Florida	FL	N							
11. Georgia	GA	N							
12. Hawaii	HI	N							
13. Idaho	ID	N							
14. Illinois	IL	N							
15. Indiana	IN	N							
16. Iowa	IA	N							
17. Kansas	KS	N							
18. Kentucky	KY	N							
19. Louisiana	LA	N							
20. Maine	ME	N							
21. Maryland	MD	N							
22. Massachusetts	MA	N							
23. Michigan	MI	N							
24. Minnesota	MN	N							
25. Mississippi	MS	N							
26. Missouri	MO	N							
27. Montana	MT	N							
28. Nebraska	NE	N							
29. Nevada	NV	N							
30. New Hampshire	NH	N							
31. New Jersey	NJ	N							
32. New Mexico	NM	N							
33. New York	NY	N							
34. North Carolina	NC	N							
35. North Dakota	ND	N							
36. Ohio	OH	N							
37. Oklahoma	OK	N							
38. Oregon	OR	N							
39. Pennsylvania	PA	N							
40. Rhode Island	RI	N							
41. South Carolina	SC	N							
42. South Dakota	SD	N							
43. Tennessee	TN	N							
44. Texas	TX	N							
45. Utah	UT	N							
46. Vermont	VT	N							
47. Virginia	VA	N							
48. Washington	WA	N							
49. West Virginia	WV	N							
50. Wisconsin	WI	N							
51. Wyoming	WY	N							
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) 2		124,853,421	117,769,065	55,849,844	55,989,113	170,591,567	615,500	

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

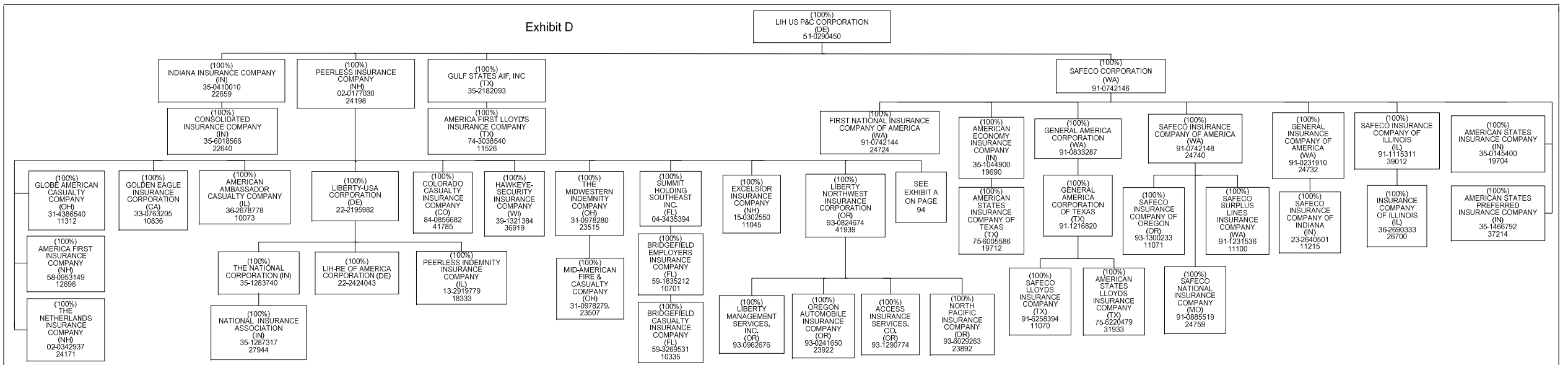
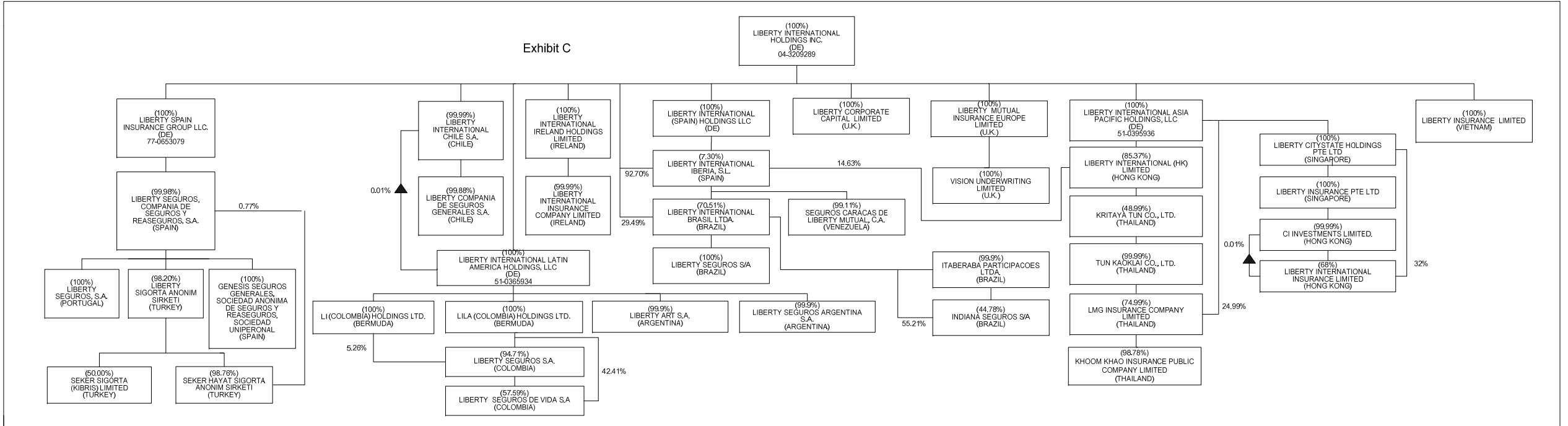
Explanation of basis of allocation of premiums by states, etc.

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

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

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

PART 1 - ORGANIZATIONAL CHART



94.1

OVERFLOW PAGE FOR WRITE-INS

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