

**ANNUAL STATEMENT**

OF THE

**Merchants & Business Men's**

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of \_\_\_\_\_

in the state of \_\_\_\_\_

TO THE

**Insurance Department**

OF THE

STATE OF

**FOR THE YEAR ENDED**

**December 31, 2004**

PROPERTY AND CASUALTY

**2004**



14486200420100100

ANNUAL STATEMENT

For the Year Ended December 31, 2004
OF THE CONDITION AND AFFAIRS OF THE

Merchants and Business Men's Mutual Insurance Company

NAIC Group Code 0111 0111 NAIC Company Code 14486 Employer's ID Number 23-0867770
(Current Period) (Prior Period)

Organized under the Laws of Pennsylvania, State of Domicile or Port of Entry Pennsylvania

Country of Domicile United States of America

Incorporated: February 1, 1895 Commenced Business: February 1, 1895

Statutory Home Office: 275 Grandview Ave Suite 300 Camp Hill, PA 17011

Main Administrative Office: 62 Maple Avenue Keene, NH 03431 603-352-3221

Mail Address: 175 Berkeley Street Boston, MA 02117

Primary Location of Books and Records: 175 Berkeley Street Boston, MA 02117 617-357-9500

Internet Website Address: www.libertyram.com

Statutory Statement Contact: Steven W. Latham 617-357-9500 43660
Steven.Latham@LibertyMutual.com 617-574-5955
(E-Mail Address) (Fax Number)

Policyowner Relations Contact: 275 Grandview Ave Suite 300 Camp Hill, PA 17011 717-238-8211

OFFICERS

Chairman of the Board
Roger Lucien Jean

Table with 2 columns: Name, Title. Rows include Donald Waardenburg (President & Chief Executive Officer), Michael John DiRusso (Secretary), James Edward Tuite # (Treasurer).

Vice-Presidents

Table with 4 columns: Name, Title, Name, Title. Rows include Geoffrey Eugene Hunt (Executive Vice President), Michael Ray Christiansen (Executive Vice President), Bob David Effinger, Jr. (Executive Vice President).

DIRECTORS OR TRUSTEES

Table with 4 columns: Name, Title, Name, Title. Rows include William Herbert Alexander, Michael Ray Christiansen, Geoffrey Eugene Hunt, Roger Lucien Jean, William George Mersch, Joseph Kniley Stine, Dwight Wayne Bowie.

State of Massachusetts
County of Suffolk ss

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

(Signature) Donald Waardenburg (Printed Name) 1. President & Chief Executive Officer (Title)
(Signature) Michael John DiRusso (Printed Name) 2. Secretary (Title)
(Signature) James Edward Tuite (Printed Name) 3. Treasurer (Title)

Subscribed and sworn to before me this
day of February, 2005

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

## ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D)	9,244,048		9,244,048	23,252,977
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 (less \$ 0 encumbrances)				
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ 0, Schedule E-Part 1), cash equivalents (\$ 1,983,797, Schedule E-Part 2) and short-term investments (\$ 180,203, Schedule DA)	2,164,000		2,164,000	9,844,102
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)				
8. Receivable for securities	200,000		200,000	100,000
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	11,608,048		11,608,048	33,197,079
11. Investment income due and accrued	129,332		129,332	364,000
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in the course of collection				
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 0 earned but unbilled premiums)				
12.3 Accrued retrospective premiums				
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers	1,706,299		1,706,299	107,470
13.2 Funds held by or deposited with reinsured companies				
13.3 Other amounts receivable under reinsurance contracts				
14. Amounts receivable relating to uninsured plans				
15.1 Current federal and foreign income tax recoverable and interest thereon	9,906		9,906	34,463
15.2 Net deferred tax asset	4,232,000	4,127,000	105,000	106,209
16. Guaranty funds receivable or on deposit				
17. Electronic data processing equipment and software				
18. Furniture and equipment, including health care delivery assets (\$ 0 )				
19. Net adjustment in assets and liabilities due to foreign exchange rates				
20. Receivables from parent, subsidiaries and affiliates				
21. Health care (\$ 0 ) and other amounts receivable				
22. Other assets nonadmitted				
23. Aggregate write-ins for other than invested assets	413,020		413,020	
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	18,098,605	4,127,000	13,971,605	33,809,221
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	18,098,605	4,127,000	13,971,605	33,809,221

DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page				
0999. Totals (Lines 0901 through 0903 + 0998) (Line 9 above)				
2301. Other assets	413,020		413,020	
2302. Cash loss advance				
2303. Equities and deposits in pools and associations				
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Lines 2301 through 2303 + 2398) (Line 23 above)	413,020		413,020	

<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)		
2. Reinsurance payable on paid loss and loss adjustment expenses (Schedule F, Part 1, Column 6)		669,479
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)		
4. Commissions payable, contingent commissions and other similar charges		
5. Other expenses (excluding taxes, licenses and fees)		
6. Taxes, licenses and fees (excluding federal and foreign income taxes)		
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))		
7.2 Net deferred tax liability		
8. Borrowed money \$ 0 and interest thereon \$ 0		
9. Unearned premiums (Part 1A, Line 37, Column 5) (after deducting unearned premiums for ceded reinsurance of \$ 1,586,037 and including warranty reserves of \$ 0 )		
10. Advance premium		
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		
12. Ceded reinsurance premiums payable (net of ceding commissions)	318,822	733,493
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	(168,180)	
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		
19. Payable to parent, subsidiaries and affiliates	1,354,747	16,369,324
20. Payable for securities		
21. Liability for amounts held under uninsured accident and health plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities		4,599,509
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	1,505,389	22,371,805
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	1,505,389	22,371,805
27. Aggregate write-ins for special surplus funds		
28. Common capital stock		
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes	9,500,000	9,500,000
32. Gross paid in and contributed surplus		
33. Unassigned funds (surplus)	2,966,216	1,937,416
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 38)	12,466,216	11,437,416
36. TOTALS (Page 2, Line 26, Col. 3)	13,971,605	33,809,221

<b>DETAILS OF WRITE-INS</b>		
2301. Other liabilities		4,599,509
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)		4,599,509
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)		

<b>UNDERWRITING AND INVESTMENT EXHIBIT STATEMENT OF INCOME</b>	1	2
<b>UNDERWRITING INCOME</b>	Current Year	Prior Year
1. Premiums earned (Part 1, Line 34, Column 4)		
DEDUCTIONS		
2. Losses incurred (Part 2, Line 34, Column 7)		
3. Loss expenses incurred (Part 3, Line 25, Column 1)		
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)		
5. Aggregate write-ins for underwriting deductions		
6. Total underwriting deductions (Lines 2 through 5)		
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)		
<b>INVESTMENT INCOME</b>		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	852,853	1,831,807
10. Net realized capital gains (losses) (Exhibit of Capital Gains (Losses))	147,242	1,235,316
11. Net investment gain (loss) (Lines 9 + 10)	1,000,095	3,067,123
<b>OTHER INCOME</b>		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 0 amount charged off \$ 0 )		
13. Finance and service charges not included in premiums	48,617	178,887
14. Aggregate write-ins for miscellaneous income	(1,872)	(2,196)
15. Total other income (Lines 12 through 14)	46,745	176,691
16. Net income before dividends to policyholders and before federal and foreign income taxes (Lines 8 + 11 + 15)	1,046,840	3,243,814
17. Dividends to policyholders		
18. Net income, after dividends to policyholders but before federal and foreign income taxes (Line 16 minus Line 17)	1,046,840	3,243,814
19. Federal and foreign income taxes incurred	6,319	24,776
20. Net income (Line 18 minus Line 19) (to Line 22)	1,040,521	3,219,038
<b>CAPITAL AND SURPLUS ACCOUNT</b>		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 38, Column 2)	11,437,416	8,518,977
<b>GAINS AND (LOSSES) IN SURPLUS</b>		
22. Net income (from Line 20)	1,040,521	3,219,038
23. Change in net unrealized capital gains or (losses)		163,407
24. Change in net unrealized foreign exchange capital gain (loss)		
25. Change in net deferred income tax	(858,597)	(1,414,328)
26. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	857,387	971,729
27. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)		
28. Change in surplus notes		
29. Surplus (contributed to) withdrawn from protected cells		
30. Cumulative effect of changes in accounting principles		
31. Capital changes:		
31.1 Paid in		
31.2 Transferred from surplus (Stock Dividend)		
31.3 Transferred to surplus		
32. Surplus adjustments:		
32.1 Paid in		
32.2 Transferred to capital (Stock Dividend)		
32.3 Transferred from capital		
33. Net remittances from or (to) Home Office		
34. Dividends to stockholders		
35. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)		
36. Aggregate write-ins for gains and losses in surplus	(10,511)	(21,407)
37. Change in surplus as regards policyholders for the year (Lines 22 through 36)	1,028,800	2,918,439
38. Surplus as regards policyholders, December 31 current year (Lines 21 plus Line 37) (Page 3, Line 35)	12,466,216	11,437,416

<b>DETAILS OF WRITE-INS</b>		
0501.		
0502.		
0503.		
0598. Summary of remaining write-ins for Line 5 from overflow page		
0599. Totals (Lines 0501 through 0503 plus Line 0598) (Line 5 above)		
1401. Miscellaneous expense	(1,872)	(2,196)
1402.		
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page		
1499. Totals (Lines 1401 through 1403 plus Line 1498) (Line 14 above)	(1,872)	(2,196)
3601. Other adjustment to surplus	(10,511)	(21,407)
3602.		
3603.		
3698. Summary of remaining write-ins for Line 36 from overflow page		
3699. Totals (Lines 3601 through 3603 plus Line 3698) (Line 36 above)	(10,511)	(21,407)

<b>CASH FLOW</b>		1	2
<b>Cash from Operations</b>		Current Year	Prior Year
1. Premiums collected net of reinsurance		(733,464)	(3,482,073)
2. Net investment income		1,096,753	1,863,104
3. Miscellaneous income		(24,856)	(635,836)
4. Total (Lines 1 through 3)		338,433	(2,254,805)
5. Benefit and loss related payments		(864,548)	7,790,916
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts			
7. Commissions, expenses paid and aggregate write-ins for deductions			6,488,295
8. Dividends paid to policyholders			113,157
9. Federal and foreign income taxes paid (recovered) \$ 0 net of tax on capital gains (losses)		(18,238)	25,000
10. Total (Lines 5 through 9)		(882,786)	14,417,368
11. Net cash from operations (Line 4 minus Line 10)		1,221,219	(16,672,173)
<b>Cash from Investments</b>			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds		14,246,938	16,023,406
12.2 Stocks			
12.3 Mortgage loans			
12.4 Real estate			1,507,925
12.5 Other invested assets			
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments			
12.7 Miscellaneous proceeds			100,000
12.8 Total investment proceeds (Lines 12.1 to 12.7)		14,246,938	17,631,331
13. Cost of investments acquired (long-term only):			
13.1 Bonds		100,000	13,373,125
13.2 Stocks			
13.3 Mortgage loans			
13.4 Real estate			
13.5 Other invested assets			
13.6 Miscellaneous applications		100,000	
13.7 Total investments acquired (Lines 13.1 to 13.6)		200,000	13,373,125
14. Net increase (decrease) in policy loans and premium notes			
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)		14,046,938	4,258,206
<b>Cash from Financing and Miscellaneous Sources</b>			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes			
16.2 Capital and paid in surplus, less treasury stock			
16.3 Borrowed funds			
16.4 Net deposits on deposit-type contracts and other insurance liabilities			
16.5 Dividends to stockholders			
16.6 Other cash provided (applied)		(22,948,259)	22,262,190
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)		(22,948,259)	22,262,190
<b>RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS</b>			
18. Net change in cash and short-term investments (Line 11, plus Lines 15 and 17)		(7,680,102)	9,848,223
19. Cash and short-term investments:			
19.1 Beginning of year		9,844,102	(4,121)
19.2 End of year (Line 18 plus Line 19.1)		2,164,000	9,844,102

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

20.0001.		
20.0002.		
20.0003.		

**NONE Underwriting and Investment Exhibit - Part 1**

**NONE**

**Underwriting and Investment Exhibit - Part 1A**



## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 1B - PREMIUMS WRITTEN

Gross Premiums (Less Return Premiums), Including Policy and Membership Fees  
Written and Renewed During Year

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	66,031			66,015	16	
2. Allied lines	39,684			39,671	13	
3. Farmowners multiple peril						
4. Homeowners multiple peril	12,978			11,542	1,436	
5. Commercial multiple peril	1,445,310			1,443,055	2,255	
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	12,060			12,011	49	
10. Financial guaranty						
11.1 Medical malpractice - occurrence						
11.2 Medical malpractice - claims-made						
12. Earthquake	361			361		
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	523,167			523,192	(25)	
17.1 Other liability - occurrence	88,453			88,422	31	
17.2 Other liability - claims-made						
18.1 Products liability - occurrence	909			909		
18.2 Products liability - claims-made						
19.1, 19.2 Private passenger auto liability	929,642			926,710	2,932	
19.3, 19.4 Commercial auto liability	134,096			134,035	61	
21. Auto physical damage	134,331			134,037	294	
22. Aircraft (all perils)						
23. Fidelity						
24. Surety						
26. Burglary and theft	70			70		
27. Boiler and machinery						
28. Credit						
29. International						
30. Reinsurance-Nonproportional Assumed Property	X X X					
31. Reinsurance-Nonproportional Assumed Liability	X X X					
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X					
33. Aggregate write-ins for other lines of business						
34. TOTALS	3,387,092			3,380,030	7,062	

DETAILS OF WRITE-INS						
3301.						
3302.						
3303.						
3398. Summary of remaining write-ins for Line 33 from overflow page						
3399. Totals (Lines 3301 through 3303 plus 3398) (Line 33 above)						

(a) Does the company's direct premiums written include premiums recorded on an installment basis? Yes [ ] No [X]  
 If yes: 1. The amount of such installment premiums \$ 0  
 2. Amount at which such installment premiums would have been reported had they been recorded on an annualized basis \$ 0

**UNDERWRITING AND INVESTMENT EXHIBIT  
PART 2 - LOSSES PAID AND INCURRED**

Line of Business	Losses Paid Less Salvage				5 Net Losses Unpaid Current Year (Part 2A, Col. 8)	6 Net Losses Unpaid Prior Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)				
1. Fire	50,822		50,822					
2. Allied lines								
3. Farmowners multiple peril								
4. Homeowners multiple peril	786,181		786,181					
5. Commercial multiple peril	11,269,245	13,257	11,282,502					
6. Mortgage guaranty								
8. Ocean marine								
9. Inland marine	68,372		68,372					
10. Financial guaranty								
11.1 Medical malpractice - occurrence								
11.2 Medical malpractice - claims - made								
12. Earthquake								
13. Group accident and health								
14. Credit accident and health (group and individual)								
15. Other accident and health								
16. Workers' compensation	1,196,949		1,196,949					
17.1 Other liability - occurrence	1,893,511		1,893,511					
17.2 Other liability - claims - made								
18.1 Products liability - occurrence								
18.2 Products liability - claims - made								
19.1, 19.2 Private passenger auto liability	7,156,251		7,156,251					
19.3, 19.4 Commercial auto liability	2,349,812		2,349,812					
21. Auto physical damage	(48,540)		(48,540)					
22. Aircraft (all perils)								
23. Fidelity								
24. Surety								
26. Burglary and theft								
27. Boiler and machinery								
28. Credit								
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X							
31. Reinsurance-Nonproportional Assumed Liability	X X X							
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X							
33. Aggregate write-ins for other lines of business								
34. TOTALS	24,722,603	13,257	24,735,860					

**DETAILS OF WRITE-INS**

3301.								
3302.								
3303.								
3398. Summary of remaining write-ins for Line 33 from overflow page								
3399. Totals (Lines 3301 through 3303 + 3398) (Line 33 above)								

**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 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	29,849		29,849		1,309		1,309		
2. Allied lines					846		846		
3. Farmowners multiple peril									
4. Homeowners multiple peril	348,439		348,439		31,505		31,505		
5. Commercial multiple peril	5,973,807		5,973,807		1,491,711		1,491,711		
6. Mortgage guaranty									
8. Ocean marine									
9. Inland marine					562		562		
10. Financial guaranty									
11.1 Medical malpractice - occurrence									
11.2 Medical malpractice - claims - made									
12. Earthquake					9		9		
13. Group accident and health								(a)	
14. Credit accident and health (group and individual)								(a)	
15. Other accident and health									
16. Workers' compensation	2,595,956	4,492	2,600,448		949,237	(8,569)	940,668		
17.1 Other liability - occurrence	4,458,100	153,312	4,611,412		1,592,192	521,330	2,113,522		
17.2 Other liability - claims - made									
18.1 Products liability - occurrence	109,900		109,900		(43,808)		(43,808)		
18.2 Products liability - claims - made									
19.1, 19.2 Private passenger auto liability	5,865,226		5,865,226		2,912,558		2,912,558		
19.3, 19.4 Commercial auto liability	1,206,838		1,206,838		263,457		263,457		
21. Auto physical damage	142,559		142,559		13,159		13,159		
22. Aircraft (all perils)									
23. Fidelity									
24. Surety									
26. Burglary and theft					1		1		
27. Boiler and machinery									
28. Credit									
29. International									
30. Reinsurance-Nonproportional Assumed Property	X X X				X X X				
31. Reinsurance-Nonproportional Assumed Liability	X X X				X X X				
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
33. Aggregate write-ins for other lines of business									
34. TOTALS	20,730,674	157,804	20,888,478		7,212,738	512,761	7,725,499		

DETAILS OF WRITE-INS									
3301.									
3302.									
3303.									
3398. Summary of remaining write-ins for Line 33 from overflow page									
3399. Totals (Lines 3301 through 3303 + 3398) (Line 33 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	5,893,009			5,893,009
1.2 Reinsurance assumed				
1.3 Reinsurance ceded	5,893,009			5,893,009
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)				
2. Commission and brokerage:				
2.1 Direct excluding contingent		271,904		271,904
2.2 Reinsurance assumed excluding contingent				
2.3 Reinsurance ceded excluding contingent		271,904		271,904
2.4 Contingent-direct		(221,746)		(221,746)
2.5 Contingent-reinsurance assumed				
2.6 Contingent-reinsurance ceded		(221,746)		(221,746)
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)				
3. Allowances to manager and agents				
4. Advertising				
5. Boards, bureaus and associations				
6. Surveys and underwriting reports				
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries				
8.2 Payroll taxes				
9. Employee relations and welfare				
10. Insurance				
11. Directors' fees				
12. Travel and travel items				
13. Rent and rent items				
14. Equipment				
15. Cost or depreciation of EDP equipment and software				
16. Printing and stationery				
17. Postage, telephone and telegraph, exchange and express				
18. Legal and auditing				
19. Totals (Lines 3 to 18)				
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 0				
20.2 Insurance department licenses and fees				
20.3 Gross guaranty association assessments				
20.4 All other (excluding federal and foreign income and real estate)				
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)				
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured accident and health plans				
24. Aggregate write-ins for miscellaneous expenses				
25. Total expenses incurred				(a)
26. Less unpaid expenses-current year				
27. Add unpaid expenses-prior year				
28. Amounts receivable relating to uninsured accident and health plans, prior year				
29. Amounts receivable relating to uninsured accident and health plans, current year				
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)				

DETAILS OF WRITE-INS				
2401.				
2402.				
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)				

(a) Includes management fees of \$ 0 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) 538,839	412,214
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a) 512,198	404,020
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)		
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 39,593	39,728
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income	(3,109)	(3,109)
10. Total gross investment income	1,087,521	852,853
11. Investment expenses		(g)
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)		
17. Net investment income (Line 10 minus Line 16)		852,853

DETAILS OF WRITE-INS			
0901. Miscellaneous Income/(Expense)		(3,109)	(3,109)
0902.			
0903.			
0998. Summary of remaining write-ins for Line 9 from overflow page			
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)		(3,109)	(3,109)
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 \$ 25,445 accrual of discount less \$ 34,677 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (b) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued dividends on purchases.
- (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (d) Includes \$ 0 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (f) Includes \$ 0 accrual of discount less \$ 0 amortization of premium.
- (g) Includes \$ 0 investment expenses and \$ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$ 0 depreciation on real estate and \$ 0 depreciation on other invested assets.
- (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 Increases (Decreases) by Adjustment	4 Total
1. U.S. Government bonds	29,137			29,137
1.1 Bonds exempt from U.S. tax				
1.2 Other bonds (unaffiliated)	118,105			118,105
1.3 Bonds of affiliates				
2.1 Preferred stocks (unaffiliated)				
2.11 Preferred stocks of affiliates				
2.2 Common stocks (unaffiliated)				
2.21 Common stocks of affiliates				
3. Mortgage loans				
4. Real estate				
5. Contract loans				
6. Cash, cash equivalents and short-term investments				
7. Derivative instruments				
8. Other invested assets				
9. Aggregate write-ins for capital gains (losses)				
10. Total capital gains (losses)	147,242			147,242

DETAILS OF WRITE-INS			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 9 from overflow page			
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)			

**EXHIBIT OF NONADMITTED ASSETS**

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks			
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA)			
6. Contract loans			
7. Other invested assets (Schedule BA)			
8. Receivable for securities			
9. Aggregate write-ins for invested assets			
10. Subtotals, cash and invested assets (Lines 1 to 9)			
11. Investment income due and accrued			
12. Premiums and considerations:			
12.1 Uncollected premiums and agents' balances in the course of collection			
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due			
12.3 Accrued retrospective premiums			
13. Reinsurance:			
13.1 Amounts recoverable from reinsurers			
13.2 Funds held by or deposited with reinsured companies			
13.3 Other amounts receivable under reinsurance contracts			
14. Amounts receivable relating to uninsured plans			
15.1 Current federal and foreign income tax recoverable and interest thereon			
15.2 Net deferred tax asset	4,127,000	4,984,388	857,388
16. Guaranty funds receivable or on deposit			
17. Electronic data processing equipment and software			
18. Furniture and equipment, including health care delivery assets			
19. Net adjustment in assets and liabilities due to foreign exchange rates			
20. Receivable from parent, subsidiaries and affiliates			
21. Health care and other amounts receivable			
22. Other assets nonadmitted			
23. Aggregate write-ins for other than invested assets			
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	4,127,000	4,984,388	857,388
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	4,127,000	4,984,388	857,388

<b>DETAILS OF WRITE-INS</b>			
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.			
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)			

## 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 Pennsylvania Insurance Commissioner, the accompanying financial statements of Merchants and Business Men's Mutual Insurance Company (the "Company") have been prepared in conformity with the National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual* ("APP Manual").

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

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

#### C. Accounting Policies

Premiums are earned over the terms of the related policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro-rata methods for direct business and are based on reports received from ceding companies for reinsurance assumed. 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. Investment grade 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. Investment grade bonds are carried at cost adjusted where appropriate for amortization of premium or discount, or market as specified by the SVO Manual.
3. The Company does not own common stocks.
4. The Company does not own preferred stocks.
5. The Company does not own mortgage loans.
6. Mortgage-backed/asset backed securities are stated at amortized value. Prepayment assumptions for single class mortgage-backed/asset backed securities and multi-class securities were obtained from internal estimates. These assumptions are consistent with the current interest rate and economic environment. The retrospective adjustment method is used to value all single class mortgage-backed/asset-backed securities and multi-class securities. Non-investment grade mortgage-backed/asset backed securities are stated at the lower of amortized value or fair value.
7. The Company has no investments in subsidiaries.
8. The Company has no investments in joint ventures, partnerships or limited liability companies.
9. The Company has no derivative instruments.
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 2004.

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

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

B. The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the State of Pennsylvania. Effective January 1, 2001, the Pennsylvania Department of Insurance required that insurance companies domiciled in Pennsylvania prepare their statutory-basis financial statements in accordance with the NAIC APP Manual, effective January 1, 2001, subject to any deviations prescribed or permitted by the Pennsylvania Insurance Commissioner.

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

#### A. Statutory Purchase Method

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

## NOTES TO FINANCIAL STATEMENTS

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B. Statutory Mergers

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

C. Impairment Loss

Not applicable

**Note 4- Discontinued Operations**

The Company has no discontinued operations to report.

**Note 5- Investments**

A. Mortgage Loans, including Mezzanine Real Estate Loans

The Company does not hold any mortgage loans as investments.

B. Troubled Debt Restructuring for Creditors

Not applicable

C. Reverse Mortgages

The Company has no reverse mortgages.

D. Loan-Backed Securities

1. The Company has 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 assumptions for single class and multi-class mortgages-backed/asset-backed securities were based upon 1-month historical constant prepayment rates.
3. The Company used IDSI, Bloomberg, and Lehman Index data in determining the market value of the vast majority of its loan-backed securities. A small number of securities are priced in other ways, such as contacting brokers.
4. The Company had no negative yield situations requiring a change from the retrospective to prospective method.

E. Repurchase Agreements

The Company did not enter into any repurchase agreements during the year.

F. Real Estate

The Company does not own real estate.

**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

All investment income due and accrued over 90 days past due is excluded from Surplus.

B. Amounts Nonadmitted

No amounts were excluded as of December 31, 2004.

**Note 8- Derivative Instruments**

The Company was not a party to any derivative financial instruments during the year.



## NOTES TO FINANCIAL STATEMENTS

### 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, 2004	December 31, 2003	Change
Total of gross deferred tax assets	4,303,479	5,366,792	(1,063,313)
Total of deferred tax liabilities	(71,479)	(276,195)	204,716
Net deferred tax asset	4,232,000	5,090,597	(858,597)
Net deferred tax asset non-admitted	(4,127,000)	(4,984,388)	857,388
Net admitted deferred tax asset	<b>105,000</b>	<b>106,209</b>	<b>(1,209)</b>

- 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:

	2004	2003
Federal	372,769	24,776
Net operating loss benefit	(366,450)	0
Foreign	0	0
Federal and foreign income tax incurred	6,319	24,776

The Company's deferred tax assets and liabilities result primarily from reversal of discount accretion on bonds, net operating loss, and minimum tax credit carryforwards.

- D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of net operating losses and changes in deferred taxes related to statutory non-admitted assets.
- E. The amount of Federal income taxes incurred and available for recoupment in the event of future losses is none from the current year and none from the preceding year.

The amount of net losses carried forward and available to offset future net income subject to Federal income taxes are as follows:

Year Generated	Amount	Expiration
1990	31,548	2005
1991	14,332	2006
1992	47,800	2007
1993	27,307	2008
1994	1,567,889	2009
1995	91,242	2010
1996	607,358	2011
1997	4,423,880	2012
2000	1,017,480	2020
2001	1,972,179	2021
2002	195,849	2022
2003	1,186,018	2023

The Company has a minimum tax credit of \$111,200 which does not expire.

- F. The Company does not join in the filing of a consolidated Federal income tax return.

### Note 10- Information concerning Parent, Subsidiaries and Affiliates

- A. Nature of Relationships

The Company is a mutual company and therefore not owned by any business entity. The Company owns Merchants Holding Company. Liberty Mutual controls a majority of the Company's Board of Directors.

- B. All non-insurance transactions which the Company had with its affiliates involved less than ½ of 1% of the total admitted assets of the reporting entity.
- C. There have been no material transactions with the company's affiliates during 2004.
- D. At December 31, 2004, the Company reported \$1,354,747 due to affiliates. In general, the terms of the intercompany arrangement requires 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. Management, Service Contracts, Cost Sharing Arrangements

The Company entered into an investment management agreement, effective in April 1998, with Liberty Mutual Insurance

## NOTES TO FINANCIAL STATEMENTS

Group (LMIG). Under this agreement, LMIG provides investment management services to the Company.

The Company entered into a management services agreement (the "Agreement"), effective April 1, 2002, with Peerless Insurance Company (PIC). Under the Agreement, PIC may provide the Company with services related to common management functions including, but not limited to, coordinating marketing and advertising, actuarial support, and accounting, as well as consulting and other services as the Parties may request.

- 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 greater than 10% of admitted assets.
- J. The Company did not recognize any impairment write down for its subsidiary, controlled, or affiliated companies during the statement period.

### **Note 11- Debt**

- A. Not applicable
- B. Not applicable

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

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 an intercompany cost-sharing arrangement as described in note 10(f).

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

- 1. Capital Stock  
Not applicable
- 2. Preferred Stock  
Not applicable
- 3. Dividend Restrictions  
There are no dividend restrictions.
- 4. Stockholder Dividend Restrictions  
Not applicable
- 5. The Company does not have restricted unassigned surplus.
- 6. The Company had no advances to surplus.
- 7. The Company does not hold stock for special purposes.
- 8. The Company does not hold special surplus funds.
- 9. The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:

	Cumulative Increase (Decrease) in Surplus	Current Year Increase (Decrease) in Surplus
a. Unrealized gains/(losses)	0	0
b. Nonadmitted asset values	(\$4,127,000)	\$857,388
c. Provision for reinsurance	0	0
<b>Total</b>	<b>(\$4,127,000)</b>	<b>\$857,388</b>

- 10. Surplus Notes

(1) Date Issued	(2) Interest Rate	(3) Amount of Note(s)	(4) Carrying Value**	(5) Interest Paid Current Year	(6) Total Interest Paid	(7) Unapproved Interest	(8) Date of Maturity
Dec. 30, 1997	7.75%	\$5,500,000	\$5,500,000	\$0	\$0	\$0	12/30/2009
Dec. 30, 1998	7.75%	\$3,000,000	\$3,000,000	\$0	\$0	\$0	12/30/2010
Dec. 30, 1998	7.75%	\$1,000,000	\$1,000,000	\$0	\$0	\$0	12/30/2010
<b>Total:</b>		<b>\$9,500,000</b>	<b>\$9,500,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	

\* Interest Rate may not exceed 10% per annum.

\*\* All notes issued at Par Value

\*\*\* Prepayment requires approval from the Pennsylvania Department of Insurance and is limited to 10% of Unassigned Surplus as of the end of the preceding calendar year.

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## NOTES TO FINANCIAL STATEMENTS

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Cash advances to surplus not repaid consist of (3) guaranty fund certificates totaling \$9,500,000, issued to an affiliated company, Liberty Mutual Insurance Company. The issue dates of the certificates are noted above. Repayment of the principal or interest is subject to the approval of the Department of Insurance of the Commonwealth of Pennsylvania. No interest was paid or accrued on any of the guaranty fund certificates during 2004.

11. Quasi re-organization (dollar impact)

Not applicable

12. Quasi re-organization (effective date)

Not applicable

**Note 14- Contingencies**

A. Contingent Commitments

The Company has no commitments or contingent commitments to affiliates or other entities as indicated in Note 10E, 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.

As a result of the inter-company reinsurance arrangement with Peerless Insurance Company (see note 26), all balances are ceded to the Peerless pool.

C. Gain Contingencies

Not applicable

D. 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.

**Note 15- Leases**

A. The Company is not involved in material lease obligations.

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 have any transfers or receivables reported as sales during the year.

B. Transfers and servicing of financial assets:

The Company did not have any transfers and servicing of financial assets during the year.

C. Wash Sales

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

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

A. Administrative Services Only (ASO) Plans

Not applicable

B. Administrative Services Contract (ASC) Plans

Not applicable

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts

## NOTES TO FINANCIAL STATEMENTS

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 – September 11 Events**

As a result of the inter-company reinsurance agreement with Peerless Insurance Company, see Note 26, the Company has no exposure to losses arising from the September 11, 2001 World Trade Center disaster.

### **Note 21- 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 \$2,471,173 and \$2,425,018 as of December 31, 2004 and 2003, respectively, were on deposit with government authorities or trustees as required by law.

D. As a result of the inter-company reinsurance agreement with Peerless Insurance Company, see Note 26, the Company has no exposure to uncollectible premium receivable balances.

E. Business Interruption Insurance Recoveries

There were no reported losses that exceeded the policy deductible.

### **Note 22- Events Subsequent**

There were no events subsequent to December 31, 2004 which would require disclosure.

### **Note 23- Reinsurance**

A. Excluding amounts arising pursuant to the intercompany pooling agreement, as described in Note 26, 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 exceed 5% of the Company's surplus. In addition, the aggregate reinsurance recoverables in dispute do not exceed 10% of the Company's surplus.

C. Reinsurance Assumed & Ceded

1. The Company did not have any assumed and ceded reinsurance as of December 31, 2004.

	<u>Assumed Reinsurance</u>		<u>Ceded Reinsurance</u>		<u>Net Reinsurance</u>	
	UEP	Commission Equity	UEP	Commission Equity	UEP	Commission Equity
Affiliates	\$0	\$0	\$1,586,037	\$127,321	\$(1,586,037)	\$(127,321)
All Other	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,586,037</b>	<b>\$127,321</b>	<b>\$(1,586,037)</b>	<b>\$(127,321)</b>

Direct unearned premium reserve of \$1,586,037

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

D. The Company did not write off any uncollectible balances in 2004.

E. The Company does not have ceded commutations.

F. The Company does not have any retroactive reinsurance agreements.

G. The Company has not entered into any deposit type reinsurance agreements as of December 31, 2004.

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

The Company does not have net accrued retrospective premiums.

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

As a result of the inter-company reinsurance agreement with Peerless Insurance Company, see Note 26, the Company has no exposure to changes in incurred losses and loss adjustment expenses.

## NOTES TO FINANCIAL STATEMENTS

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

The Company participates in a 100% Quota Share Reinsurance Agreement (the Agreement) with an affiliate, Peerless Insurance Company, the lead company in the LIH Inter-Company Reinsurance Agreement. Pursuant to the Agreement, after external reinsurance, the Company cedes its net underwriting activity to the lead company.

Pursuant to the approval of the Pennsylvania Department of Insurance, effective January 1, 2004, Merchants & Businessmen's Mutual Insurance Company (M&B) cancelled its Fronting Agreement with Liberty Mutual Insurance Company (LMIC), the lead company in the Liberty Mutual Inter-Company Reinsurance Agreement and concurrently entered into a Fronting Agreement with Peerless Insurance Company (PIC), the lead company in the LIH Inter-Company Reinsurance Agreement. Under the terms of the PIC Fronting Agreement, after processing external reinsurance, M&B cedes 100% of its direct underwriting activity to PIC.

Also, concurrent with entering into the Fronting Agreement with PIC, M&B transferred its in-force balances as of January 1, 2004, previously ceded to LMIC, to PIC and compensated the LIH Inter-Company Reinsurance Agreement by a like amount for assuming these in-force balances. There was no gain or loss to surplus from this transaction.

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

- A The Company has not purchased annuities
- B. Not applicable

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

Not applicable

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

Not applicable

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

As a result of the inter-company reinsurance agreement with Peerless Insurance Company, see Note 26, the Company has no exposure to liabilities related to premium deficiency reserves.

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

As a result of the inter-company reinsurance agreement with Peerless Insurance Company, see Note 26, the Company has no exposure.

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

Not applicable

### **Note 33 - Asbestos/Environmental Reserves**

As a result of the inter-company reinsurance agreement with Peerless Insurance Company, see Note 26, the Company has no exposure to asbestos and environmental claims.

### **Note 34- Subscriber Savings Accounts**

The Company is not a reciprocal insurance company.

### **Note 35 - Multiple Peril Crop Insurance**

Not applicable

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	3,733,595	32.164	3,733,595	32.164
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	481,476	4.148	481,476	4.148
1.22 Issued by U.S. government sponsored agencies	1,525,681	13.143	1,525,681	13.143
1.3 Foreign government (including Canada, excluding mortgage-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	100,000	0.861	100,000	0.861
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations				
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	673,941	5.806	673,941	5.806
1.512 Issued or guaranteed by FNMA and FHLMC	284,257	2.449	284,257	2.449
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA				
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage- backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All other				
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	2,445,099	21.064	2,445,099	21.064
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds				
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company				
5.2 Property held for production of income (includes \$ 0 of property acquired in satisfaction of debt)				
5.3 Property held for sale (\$ 0 including property acquired in satisfaction of debt)				
6. Policy loans				
7. Receivables for securities	200,000	1.723	200,000	1.723
8. Cash, cash equivalents and short-term investments	2,164,000	18.642	2,164,000	18.642
9. Other invested assets				
10. Total invested assets	11,608,049	100.000	11,608,049	100.000

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

#### GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [ X ] No [ ]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [ X ] No [ ] N/A [ ]
- 1.3 State Regulating? Pennsylvania
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [ X ]
- 2.2 If yes, date of change:  
If not previously filed, furnish herewith a certified copy of the instrument as amended. \_\_\_\_\_
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/1999
- 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. 12/31/1999
- 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). 12/07/2001
- 3.4 By what department or departments? Pennsylvania Department of Insurance
- 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 [ X ] No [ ]
- 4.12 renewals? Yes [ ] No [ X ]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [ ] No [ X ]
- 4.22 renewals? Yes [ ] No [ X ]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [ X ]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

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

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action either formal or informal, if a confidentiality clause is part of the agreement.) Yes [ ] No [ X ]
- 6.2 If yes, give full information \_\_\_\_\_
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [ X ]
- 7.2 If yes,
- 7.21 State the percentage of foreign control 0 %
- 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

## GENERAL INTERROGATORIES

- 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 location (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 a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification? William M. Finn, FCAS, MAAA, Vice President & Senior Actuary  
 62 Maple Avenue, Keene NH 03431  
 Liberty Regional Agency Markets
11. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:  
 11.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?  
 .....
- 11.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [X]  
 11.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [X]  
 11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [X]

### BOARD OF DIRECTORS

12. 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 [X] No [ ]  
 13. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No [ ]  
 14. 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 which is in or is likely to conflict with the official duties of such person? Yes [X] No [ ]

### FINANCIAL

- 15.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):  
     15.11 To directors or other officers \$ \_\_\_\_\_  
     15.12 To stockholders not officers \$ \_\_\_\_\_  
     15.13 Trustees, supreme or grand (Fraternal only) \$ \_\_\_\_\_
- 15.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):  
     15.21 To directors or other officers \$ \_\_\_\_\_  
     15.22 To stockholders not officers \$ \_\_\_\_\_  
     15.23 Trustees, supreme or grand (Fraternal only) \$ \_\_\_\_\_
- 16.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [ ] No [X]  
 16.2 If yes, state the amount thereof at December 31 of the current year:  
     16.21 Rented from others \$ \_\_\_\_\_  
     16.22 Borrowed from others \$ \_\_\_\_\_  
     16.23 Leased from others \$ \_\_\_\_\_  
     16.24 Other \$ \_\_\_\_\_
- Disclose in Notes to Financial the nature of each obligation.
- 17.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [ ] No [X]  
 17.2 If answer is yes:  
     17.21 Amount paid as losses or risk adjustment \$ \_\_\_\_\_  
     17.22 Amount paid as expenses \$ \_\_\_\_\_  
     17.23 Other amounts paid \$ \_\_\_\_\_



## GENERAL INTERROGATORIES

### INVESTMENT

18. List the following capital stock information for the reporting entity:

Class	1 Number of Shares Authorized	2 Number of Shares Outstanding	3 Par Value Per Share	4 Redemption Price If Callable	5 Is Dividend Rate Limited?	6 Are Dividends Cumulative?
Preferred					Yes [ ] No [X]	Yes [ ] No [X]
Common				X X X	X X X    X X X	X X X    X X X

19.1 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, except as shown by Schedule E - Part 3 - Special Deposits? Yes [X] No [ ]

19.2 If no, give full and complete information, relating thereto  
 .....  
 .....

20.1 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, except as shown on Schedule E - Part 3 - Special Deposits, 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 16.1). Yes [ ] No [X]

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

20.21 Loaned to others	\$ _____
20.22 Subject to repurchase agreements	\$ _____
20.23 Subject to reverse repurchase agreements	\$ _____
20.24 Subject to dollar repurchase agreements	\$ _____
20.25 Subject to reverse dollar repurchase agreements	\$ _____
20.26 Pledged as collateral	\$ _____
20.27 Placed under option agreements	\$ _____
20.28 Letter stock or securities restricted as to sale	\$ _____
20.29 Other	\$ _____

20.3 For category (20.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

21.2 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.

22.1 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]

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

**GENERAL INTERROGATORIES**

**INVESTMENT**

23. Excluding items in Schedule E, 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 Part 1-General, Section IV.H-Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook? Yes [ ] No [X]

23.01 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

23.02 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)

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year? Yes [ ] No [X]

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

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

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

1 Central Registration Depository Number(s)	2 Name	3 Address

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

24.2 If yes, complete the following schedule:

1 CUSIP#	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
9999999	Total	

24.3 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

## GENERAL INTERROGATORIES

### INVESTMENT

25. 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 (+)
25.1 Bonds	9,424,252	9,881,365	457,113
25.2 Preferred stocks			
25.3 Totals	9,424,252	9,881,365	457,113

25.4 Describe the sources or methods utilized in determining the fair values: Fair values are based on quoted market prices when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services.

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

26.2 If no, list exceptions:  
 .....  
 .....

### OTHER

27.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any? \$ \_\_\_\_\_

27.2 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
	\$
	\$
	\$
	\$
	\$

28.1 Amount of payments for legal expenses, if any? \$ \_\_\_\_\_

28.2 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
	\$
	\$
	\$
	\$
	\$

29.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or department of government, if any? \$ \_\_\_\_\_

29.2 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 department of government during the period covered by this statement.

1 Name	2 Amount Paid
	\$
	\$
	\$
	\$
	\$

**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	\$ _____	\$ _____
2.2 Premium Denominator	\$ _____	\$ _____
2.3 Premium Ratio (2.1/2.2)	_____	_____
2.4 Reserve Numerator	\$ _____	\$ _____
2.5 Reserve Denominator	\$ _____	\$ _____
2.6 Reserve Ratio (2.4/2.5)	_____	_____

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 Exchange 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. \$ \_\_\_\_\_

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 \_\_\_\_\_

**GENERAL INTERROGATORIES**  
(Continued)

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

- 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 of loss: The Company has a 100% Quota share agreement with Peerless Insurance Company
- 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:
- 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 a 100% Quota share agreement with Peerless Insurance Company
- 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 uninsured catastrophic loss
- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract which includes a provision which would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? YES [ ] NO [X]
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions.
- 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. 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 [ ]
- 10.1 Has the reporting entity guaranteed policies issued by any other entity and now in force? YES [ ] NO [X]
- 10.2 If yes, give full information
- 11.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 12.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- |       |   |    |       |
|-------|---|----|-------|
| 11.11 | Unpaid losses   | \$ | _____ |
| 11.12 | Unpaid underwriting expenses (including loss adjustment expenses) | \$ | _____ |
- 11.2 Of the amount on Line 12.3 of the asset schedule, Page 2, state the amount which is secured by letters of credit, collateral and other funds? \$ \_\_\_\_\_
- 11.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? YES [ ] NO [X] N/A [ ]
- 11.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
- |       |      |       |   |
|-------|------|-------|---|
| 11.41 | From | _____ | % |
| 11.42 | To   | _____ | % |
- 11.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium or promissory notes taken by a reporting entity, or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? YES [ ] NO [X]
- 11.6 If yes, state the amount thereof at December 31 of current year:
- |       |                            |    |       |
|-------|----------------------------|----|-------|
| 11.61 | Letters of Credit          | \$ | _____ |
| 11.62 | Collateral and other funds | \$ | _____ |
- 12.1 What amount of installment notes is owned and now held by the reporting entity? \$ \_\_\_\_\_
- 12.2 Have any of these notes been hypothecated, sold or used in any manner as security for money loaned within the past year? YES [ ] NO [X]
- 12.3 If yes, what amount? \$ \_\_\_\_\_
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ \_\_\_\_\_
- 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. \_\_\_\_\_ 3

**GENERAL INTERROGATORIES**  
(Continued)

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

14.1 Is the company a cedant in a multiple cedant reinsurance contract? YES [ ] NO [X]

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

.....

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

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 own any securities of a real estate holding company or otherwise hold real estate indirectly? YES [ ] NO [X]

16.11 Name of real estate holding company \_\_\_\_\_

16.12 Number of parcels involved \_\_\_\_\_

16.13 Total book/adjusted carrying value \$ \_\_\_\_\_

16.2 If yes, provide explanation .....

.....

17.1 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	Direct Losses	Direct Written	Direct Premium	Direct Premium
	Incurred	Unpaid	Premium	Unearned	Earned
17.11 Home	\$ .....	\$ .....	\$ .....	\$ .....	\$ .....
17.12 Products	\$ .....	\$ .....	\$ .....	\$ .....	\$ .....
17.13 Automobile	\$ .....	\$ .....	\$ .....	\$ .....	\$ .....
17.14 Other*	\$ .....	\$ .....	\$ .....	\$ .....	\$ .....

\* Disclose type of coverage: \_\_\_\_\_

## FIVE-YEAR HISTORICAL DATA

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

	1 2004	2 2003	3 2002	4 2001	5 2000
<b>Gross Premiums Written</b> (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)	1,676,267	3,208,025	21,436,433	24,939,178	32,836,064
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	252,537	(663,485)	5,252,847	5,758,292	5,950,904
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,458,288	6,376,572	18,622,425	26,137,606	27,886,633
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)		(213,843)	1,076,196	1,097,411	1,168,835
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)		(33,868)	291,107	90,788	160,985
6. Total (Line 34)	3,387,092	8,673,401	46,679,008	58,023,275	68,003,421
<b>Net Premiums Written</b> (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)		(1,990,772)	10,049,300	8,746,576	8,440,994
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)		(1,501,198)	3,059,934	2,820,607	2,268,532
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)		(1,163,395)	2,357,826	2,045,485	1,826,748
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)		(213,843)	1,076,100	1,093,375	1,168,348
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)		(33,868)	291,107	90,788	160,985
12. Total (Line 34)		(4,903,076)	16,834,267	14,796,831	13,865,607
<b>Statement of Income</b> (Page 4)					
13. Net underwriting gain (loss) (Line 8)			(1,385,934)	(4,699,654)	(2,465,905)
14. Net investment gain (loss) (Line 11)	1,000,095	3,067,123	1,822,383	1,838,941	1,794,607
15. Total other income (Line 15)	46,745	176,691	(134,153)	1,359,579	623,129
16. Dividends to policyholders (Line 17)			129,751	154,521	187,587
17. Federal and foreign income taxes incurred (Line 19)	6,319	24,776	(20,597)	1,727	37,108
18. Net income (Line 20)	1,040,521	3,219,038	193,142	(1,657,382)	(272,864)
<b>Balance Sheet Lines</b> (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	13,971,605	33,809,221	53,103,441	49,688,563	53,658,774
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 12.1)			708,717	1,557,577	(2,088,901)
20.2 Deferred and not yet due (Line 12.2)			2,590,850	2,086,274	2,069,977
20.3 Accrued retrospective premiums (Line 12.3)			1,398,941	1,442,101	1,246,418
21. Total liabilities excluding protected cell business (Page 3, Line 24)	1,505,389	22,371,805	44,584,464	41,011,852	43,146,865
22. Losses (Page 3, Lines 1 and 2)		669,479	24,892,380	25,807,149	24,687,563
23. Loss adjustment expenses (Page 3, Line 3)			4,745,849	5,011,812	5,162,421
24. Unearned premiums (Page 3, Line 9)			6,451,345	5,512,412	5,117,875
25. Capital paid up (Page 3, Lines 28 & 29)					
26. Surplus as regards policyholders (Page 3, Line 35)	12,466,216	11,437,416	8,518,977	8,676,711	10,511,909
<b>Risk-Based Capital Analysis</b>					
27. Total adjusted capital	12,466,216	11,437,416	8,518,977	8,676,711	10,511,909
28. Authorized control level risk-based capital	23,616	86,567	5,681,747	3,205,606	3,404,711
<b>Percentage Distribution of Cash and Invested Assets</b> (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
29. Bonds (Line 1)	79.6	70.0	96.5	63.4	80.0
30. Stocks (Lines 2.1 & 2.2)				0.1	0.1
31. Mortgage loans on real estate (Lines 3.1 and 3.2)					
32. Real estate (Lines 4.1, 4.2 & 4.3)			2.8	2.4	2.4
33. Cash and short-term investments (Line 5)	18.6	29.7	(0.0)	34.1	17.5
34. Contract loans (Line 6)			XXX	XXX	XXX
35. Other invested assets (Line 7)					
36. Receivable for securities (Line 8)	1.7	0.3	0.8		
37. Aggregate write-ins for invested assets (Line 9)					
38. Cash and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
39. Affiliated bonds, (Sch. D, Summary, Line 25, Col. 1)					
40. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)					
41. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 2)					
42. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 11)					
43. Affiliated mortgage loans on real estate					
44. All other affiliated					
45. Total of above Lines 39 to 44					
46. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 45 above divided by Page 3, Col. 1, Line 35 x 100.0)					

## FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2004	2 2003	3 2002	4 2001	5 2000
<b>Capital and Surplus Accounts</b> (Page 4)					
47. Net unrealized capital gains (losses) (Line 23)		163,407	(87,202)	(111,071)	1,250
48. Dividends to stockholders (Line 34)					
49. Change in surplus as regards policyholders for the year (Line 37)	1,028,800	2,918,439	(157,734)	(1,835,198)	121,283
<b>Gross Losses Paid</b> (Page 9, Part 2, Cols. 1 & 2)					
50. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	12,596,523	44,448,626	47,790,920	59,826,159	44,664,141
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	70,654	1,323,263	3,283,891	3,960,136	4,911,279
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	12,068,683	12,508,871	13,378,238	16,759,577	15,710,391
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)		1,526,706	867,942	746,576	1,030,266
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)		271,014	211,233	144,078	254,598
55. Total (Line 34)	24,735,860	60,078,480	65,532,224	81,436,526	66,570,675
<b>Net Losses Paid</b> (Page 9, Part 2, Col. 4)					
56. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)		21,461,184	7,852,762	7,727,359	13,641,487
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)		184,004	1,528,538	1,752,240	1,696,734
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)		1,458,469	1,335,871	1,567,034	1,560,853
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)		1,526,706	867,942	746,576	1,030,266
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)		271,014	211,233	144,078	254,598
61. Total (Line 34)		24,901,377	11,796,346	11,937,287	18,183,938
<b>Operating Percentages</b> (Page 4) (Item divided by Page 4, Line 1) x 100.0					
62. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
63. Losses incurred (Line 2)			68.6	89.1	76.6
64. Loss expenses incurred (Line 3)			16.4	17.0	16.1
65. Other underwriting expenses incurred (Line 4)			23.7	25.9	24.6
66. Net underwriting gain (loss) (Line 8)			(8.8)	(32.0)	(17.2)
<b>Other Percentages</b>					
67. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 34 x 100.0)		3.6	23.1	25.7	25.7
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)			85.1	106.1	92.7
69. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 34 divided by Page 3, Line 35, Col. 1 x 100.0)		(42.9)	197.6	1.7	1.3
<b>One Year Loss Development (000 omitted)</b>					
70. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)			1,223	2,419	670
71. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 70 above divided by Page 4, Line 21, Col. 1 x 100.0)			14.1	23.0	6.5
<b>Two Year Loss Development (000 omitted)</b>					
72. 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)			4,629	3,177	(14)
73. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 72 above divided by Page 4, Line 21, Col. 2 x 100.0)			44.0	30.6	



### SCHEDULE D - SUMMARY BY COUNTRY

Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
<b>BONDS</b>					
Governments (Including all obligations guaranteed by governments)	1. United States .....	4,889,012	4,972,009	4,908,965	4,759,818
	2. Canada .....				
	3. Other Countries .....				
	4. Totals	4,889,012	4,972,009	4,908,965	4,759,818
States, Territories and Possessions (Direct and guaranteed)	5. United States .....	100,000	100,000	100,000	100,000
	6. Canada .....				
	7. Other Countries .....				
	8. Totals	100,000	100,000	100,000	100,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States .....				
	10. Canada .....				
	11. Other Countries .....				
	12. Totals				
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States .....	1,809,938	1,951,142	1,818,194	1,786,675
	14. Canada .....				
	15. Other Countries .....				
	16. Totals	1,809,938	1,951,142	1,818,194	1,786,675
Public Utilities (unaffiliated)	17. United States .....				
	18. Canada .....				
	19. Other Countries .....				
	20. Totals				
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States .....	2,445,098	2,678,010	2,390,455	2,500,000
	22. Canada .....				
	23. Other Countries .....				
	24. Totals	2,445,098	2,678,010	2,390,455	2,500,000
Parent, Subsidiaries and Affiliates	25. Totals				
<b>26. Total Bonds</b>		<b>9,244,048</b>	<b>9,701,161</b>	<b>9,217,614</b>	<b>9,146,493</b>
<b>PREFERRED STOCKS</b>					
Public Utilities (unaffiliated)	27. United States .....				
	28. Canada .....				
	29. Other Countries .....				
	30. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	31. United States .....				
	32. Canada .....				
	33. Other Countries .....				
	34. Totals				
Industrial and Miscellaneous (unaffiliated)	35. United States .....				
	36. Canada .....				
	37. Other Countries .....				
	38. Totals				
Parent, Subsidiaries and Affiliates	39. Totals				
<b>40. Total Preferred Stocks</b>					
<b>COMMON STOCKS</b>					
Public Utilities (unaffiliated)	41. United States .....				
	42. Canada .....				
	43. Other Countries .....				
	44. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	45. United States .....				
	46. Canada .....				
	47. Other Countries .....				
	48. Totals				
Industrial and Miscellaneous (unaffiliated)	49. United States .....				
	50. Canada .....				
	51. Other Countries .....				
	52. Totals				
Parent, Subsidiaries and Affiliates	53. Totals				
<b>54. Total Common Stocks</b>					
55. Total Stocks					
56. Total Bonds and Stocks		9,244,048	9,701,161	9,217,614	

### SCHEDULE D - VERIFICATION BETWEEN YEARS

1. Book/adjusted carrying value of bonds and stocks, prior year .....	<u>23,252,977</u>	6. Foreign Exchange Adjustment:	
2. Cost of bonds and stocks acquired, Column 7, Part 3 .....	<u>100,000</u>	6.1 Column 15, Part 1 .....	
3. Increase (decrease) by adjustment:		6.2 Column 19, Part 2, Section 1 .....	
3.1 Columns 12 + 13 - 14, Part 1 .....	<u>(1,709)</u>	6.3 Column 16, Part 2, Section 2 .....	
3.2 Column 18, Part 2, Section 1 .....		6.4 Column 15, Part 4 .....	
3.3 Column 15, Part 2, Section 2 .....		7. Book/adjusted carrying value at end of current period .....	<u>9,244,048</u>
3.4 Column 14, Part 4 .....	<u>(7,525)</u>	8. Total valuation allowance .....	
4. Total gain (loss), Column 19, Part 4 .....	<u>147,242</u>	9. Subtotal (Lines 7 plus 8) .....	<u>9,244,048</u>
5. Deduct consideration for bonds and stocks disposed of Column 7, Part 4 .....	<u>14,246,937</u>	10. Total nonadmitted amounts .....	
		11. Statement value of bonds and stocks, current period .....	<u>9,244,048</u>

**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	154	154	58	58					X X X
2. 1995				123	123	37	37					X X X
3. 1996				540	540	123	123	1	1			X X X
4. 1997				2,323	2,323	336	336	35	35			X X X
5. 1998				2,705	2,705	979	979	15	15			X X X
6. 1999				5,892	5,892	2,079	2,079	41	41			X X X
7. 2000				15,819	15,819	4,166	4,166	81	81			X X X
8. 2001				8,073	8,073	2,495	2,495	81	81			X X X
9. 2002				12,768	12,768	3,037	3,037	174	174			X X X
10. 2003	22,170	22,170		9,245	9,245	2,450	2,450	569	569	5		X X X
11. 2004	7,675	7,675		1,719	1,719	289	289	16	16	8		X X X
12. Totals	X X X	X X X	X X X	59,361	59,361	16,049	16,049	1,013	1,013	13		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		21 Direct and Assumed	22 Ceded			
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded					
1. Prior	363	363	14	14			15	15	10	10			X X X
2. 1995	18	18	8	8			21	21	2	2			X X X
3. 1996	224	224	8	8			44	44	8	8			X X X
4. 1997	264	264	8	8			44	44	7	7			X X X
5. 1998	523	523	16	16			110	110					X X X
6. 1999	2,700	2,700	84	84			268	268	(964)	(964)			X X X
7. 2000	5,571	5,571	832	832			795	795	(151)	(151)			X X X
8. 2001	4,036	4,036	458	458			706	706	(316)	(316)			X X X
9. 2002	3,913	3,913	556	556			976	976	(219)	(219)			X X X
10. 2003	2,036	2,036	836	836			439	439	(73)	(73)			X X X
11. 2004	1,239	1,239	4,906	4,906			932	932	86	86			X X X
12. Totals	20,887	20,887	7,726	7,726			4,350	4,350	(1,610)	(1,610)			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		
2. 1995	209	209									
3. 1996	948	948									
4. 1997	3,017	3,017									
5. 1998	4,348	4,348									
6. 1999	10,100	10,100									
7. 2000	27,113	27,113									
8. 2001	15,533	15,533									
9. 2002	21,205	21,205									
10. 2003	15,502	15,502		69.923	69.923						
11. 2004	9,187	9,187		119.700	119.700						
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X		

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
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	One Year	Two Year
1. Prior												
2. 1995												
3. 1996	X X X											
4. 1997	X X X	X X X										
5. 1998	X X X	X X X	X X X									
6. 1999	X X X	X X X	X X X	X X X								
7. 2000	X X X	X X X	X X X	X X X	X X X							
8. 2001	X X X	X X X	X X X	X X X	X X X	X X X						
9. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X					
10. 2003	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
11. 2004	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		X X X	X X X
12. Totals												

**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
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		
1. Prior	000										X X X	X X X
2. 1995											X X X	X X X
3. 1996	X X X										X X X	X X X
4. 1997	X X X	X X X									X X X	X X X
5. 1998	X X X	X X X	X X X								X X X	X X X
6. 1999	X X X	X X X	X X X	X X X							X X X	X X X
7. 2000	X X X	X X X	X X X	X X X	X X X						X X X	X X X
8. 2001	X X X	X X X	X X X	X X X	X X X	X X X					X X X	X X X
9. 2002	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
10. 2003	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	X X X
11. 2004	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		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
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Prior										
2. 1995										
3. 1996	X X X									
4. 1997	X X X	X X X								
5. 1998	X X X	X X X	X X X							
6. 1999	X X X	X X X	X X X	X X X						
7. 2000	X X X	X X X	X X X	X X X	X X X					
8. 2001	X X X	X X X	X X X	X X X	X X X	X X X				
9. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X			
10. 2003	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X		
11. 2004	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	

**SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN**  
**Allocated by States and Territories**

States, Etc.	1 Is Insurer Licensed? (Yes or No)	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
		2 Direct Premiums Written	3 Direct Premiums Earned						
1. Alabama	AL	NO							
2. Alaska	AK	NO							
3. Arizona	AZ	NO							
4. Arkansas	AR	NO							
5. California	CA	NO							
6. Colorado	CO	NO							
7. Connecticut	CT	YES				100,000	100,000		
8. Delaware	DE	YES		129	54,007	(164,837)	(171,309)		
9. Dist. Columbia	DC	NO							
10. Florida	FL	YES			(9,133)	(9,888)	(99,185)		
11. Georgia	GA	YES							
12. Hawaii	HI	NO							
13. Idaho	ID	NO							
14. Illinois	IL	NO							
15. Indiana	IN	NO							
16. Iowa	IA	NO							
17. Kansas	KS	NO							
18. Kentucky	KY	YES							
19. Louisiana	LA	NO							
20. Maine	ME	NO				(200,000)	(200,000)		
21. Maryland	MD	YES	(21,244)	(8,922)	276,455	1,696,033	1,889,746		
22. Massachusetts	MA	YES	(17,505)	841,333	1,661,406	139,336	1,914,042		
23. Michigan	MI	NO							
24. Minnesota	MN	NO							
25. Mississippi	MS	NO							
26. Missouri	MO	NO							
27. Montana	MT	NO							
28. Nebraska	NE	NO							
29. Nevada	NV	NO							
30. New Hampshire	NH	NO				(500,000)	(500,000)		
31. New Jersey	NJ	YES	(2,329)	100,366	226,237	9,335,027	10,060,134		
32. New Mexico	NM	NO							
33. New York	NY	YES	1,027,401	2,892,324	15,225,260	7,864,580	14,340,552	5,631	
34. No. Carolina	NC	YES		4,399	(1,200)	(10,254)	82,402		
35. No. Dakota	ND	NO							
36. Ohio	OH	YES			19,688	(235,624)	183,141		
37. Oklahoma	OK	NO							
38. Oregon	OR	NO							
39. Pennsylvania	PA	YES	2,402,117	3,833,624	6,946,709	9,507,675	(493,354)	12,934	
40. Rhode Island	RI	NO				100,000	100,000		
41. So. Carolina	SC	YES							
42. So. Dakota	SD	NO							
43. Tennessee	TN	YES				(123,088)	(184,003)		
44. Texas	TX	NO							
45. Utah	UT	NO							
46. Vermont	VT	NO				(250,000)	(250,000)		
47. Virginia	VA	YES	(1,348)	13,067	323,176	5,484	1,171,248		
48. Washington	WA	NO							
49. West Virginia	WV	YES							
50. Wisconsin	WI	NO							
51. Wyoming	WY	NO							
52. American Samoa	AS	NO							
53. Guam	GU	NO							
54. Puerto Rico	PR	NO							
55. U.S. Virgin Islands	VI	NO							
56. Canada	CN	NO							
57. Aggregate other alien	OT	X X X							
58. Totals	(a) 16		3,387,092	7,676,320	24,722,605	27,254,444	27,943,414	18,565	

DETAILS OF WRITE-INS									
5701.	X X X								
5702.	X X X								
5703.	X X X								
5798. Summary of remaining write-ins for Line 57 from overflow page	X X X								
5799. Totals (Lines 5701 through 5703 + 5798) (Line 57 above)	X X X								

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

- \*Location of coverage - Fire, Allied Lines, Homeowners Multi Peril, Commercial Multi Peril, Earthquake, Boiler and Machinery
- \*States of Jurisdiction under which payrolls and resulting premiums are developed - Worker's Compensation
- \*Location of Principal place of garaging of each individual car - Auto Liability, Auto Physical Damage
- \*Principal Location of business or location of coverage - Liability other than Auto, Fidelity
- \*Point of origin of shipment or principal location of assured - Inland Marine
- \*State in which employees regularly work - Group Accident and Health
- \*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 yes responses except for Canada and Other Alien.



**OVERFLOW PAGE FOR WRITE-INS**

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