

**ANNUAL STATEMENT**

**OF THE**

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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**



14613200420100100

ANNUAL STATEMENT

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

Montgomery Mutual Insurance Company

NAIC Group Code 0111 0111 NAIC Company Code 14613 Employer's ID Number 52-0424870
(Current Period) (Prior Period)

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

Country of Domicile United States of America

Incorporated: March 10, 1848 Commenced Business: June 1, 1848

Statutory Home Office: 17810 Meeting House Road Sandy Spring, MD 20860

Main Administrative Office: 17810 Meeting House Road Sandy Spring, MD 20860 301-924-4700

Mail Address: 17810 Meeting House Road Sandy Spring, MD 20860

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

Internet Website Address: www.LibertyMutual.com

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

Policyowner Relations Contact: 17810 Meeting House Road Sandy Springs, MD 20860 800-638-8933 4267

OFFICERS

Chairman of the Board
Roger Lucien Jean

Table with 2 columns: Name, Title. Rows include John Charles Robinson (President & Chief Executive Officer), William James Robinson # (Secretary), Patrick Joseph Smyth (Treasurer).

Vice-Presidents

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

DIRECTORS OR TRUSTEES

Table with 4 columns: Name, Title, Name, Title. Rows include Anthony Alexander Fontanes, Roger Lucien Jean, Kenneth Paul Blackwood, Amy Johnston Leddy, William George Mersch, Francis David Rolwing, Laurance Henry Soyer Yahia, James Francis Dore, Michael Ray Christiansen, Bob David Effinger, Jr., Geoffrey Eugene Hunt, John Charles Robinson.

State of
County of 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) John Charles Robinson (Printed Name) 1. President & Chief Executive Officer (Title)
(Signature) William James Robinson (Printed Name) 2. Secretary (Title)
(Signature) Patrick Joseph Smyth (Printed Name) 3. Treasurer (Title)

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

a. Is this an original filing? YES [ ] NO [X]
b. If no: 1. State the amendment number 1
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)	66,809,606		66,809,606	129,322,170
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks	26,849,778		26,849,778	24,943,419
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)				4,931,628
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ 280,577, Schedule E-Part 1), cash equivalents (\$ 0, Schedule E-Part 2) and short-term investments (\$ 14,526,051, Schedule DA)	14,806,628		14,806,628	6,974,734
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)				
8. Receivable for securities				5,625
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	108,466,012		108,466,012	166,177,576
11. Investment income due and accrued	730,847		730,847	1,606,884
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in the course of collection	3,243,821	290,624	2,953,197	7,083,216
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 569,232 earned but unbilled premiums)	17,063,747	56,365	17,007,382	12,321,591
12.3 Accrued retrospective premiums				6,372,754
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers				1,072,242
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	355,175		355,175	239,835
15.2 Net deferred tax asset	5,146,000	1,695,599	3,450,401	4,314,000
16. Guaranty funds receivable or on deposit	125,720		125,720	366,348
17. Electronic data processing equipment and software	27,941		27,941	18,704
18. Furniture and equipment, including health care delivery assets (\$ 0 )	163,760	163,760		
19. Net adjustment in assets and liabilities due to foreign exchange rates				
20. Receivables from parent, subsidiaries and affiliates	1,021,487		1,021,487	2,931,486
21. Health care (\$ 0 ) and other amounts receivable				
22. Other assets nonadmitted	19,446	19,446		
23. Aggregate write-ins for other than invested assets	2,404,517	1,292,689	1,111,828	4,051,274
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	138,768,473	3,518,483	135,249,990	206,555,910
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	138,768,473	3,518,483	135,249,990	206,555,910

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	2,258,495	1,292,689	965,806	2,342,180
2302. Cash Surrender Value-Life Insurance				1,324,060
2303. Equities and deposits in pools and associations	146,022		146,022	385,034
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Lines 2301 through 2303 + 2398) (Line 23 above)	2,404,517	1,292,689	1,111,828	4,051,274

<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	39,236,236	105,498,541
2. Reinsurance payable on paid loss and loss adjustment expenses (Schedule F, Part 1, Column 6)		124,414
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	9,406,821	20,861,326
4. Commissions payable, contingent commissions and other similar charges	2,290,314	981,254
5. Other expenses (excluding taxes, licenses and fees)	431,195	3,281,324
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	925,163	2,866,203
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 \$ 34,242,406 and including warranty reserves of \$ 0 )	30,903,170	30,682,085
10. Advance premium	119,120	306,684
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		28,065
12. Ceded reinsurance premiums payable (net of ceding commissions)		4,511,214
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	(798,368)	(539,473)
15. Remittances and items not allocated		
16. Provision for reinsurance (Schedule F, Part 7)		400,000
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding	117	3,254,820
19. Payable to parent, subsidiaries and affiliates		
20. Payable for securities		616
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	940,901	(4,958,630)
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	83,454,669	167,298,443
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	83,454,669	167,298,443
27. Aggregate write-ins for special surplus funds		8,924,773
28. Common capital stock		
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes	18,000,000	18,000,000
32. Gross paid in and contributed surplus		
33. Unassigned funds (surplus)	33,795,321	12,332,694
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)	51,795,321	39,257,467
36. TOTALS (Page 2, Line 26, Col. 3)	135,249,990	206,555,910

<b>DETAILS OF WRITE-INS</b>		
2301. Other Liabilities	28,907	1,723,055
2302. Collateral Held for Securities Loaned	926,558	6,223,372
2303. Pooled Retroactive Reinsurance		(17,254,006)
2398. Summary of remaining write-ins for Line 23 from overflow page	(14,564)	4,348,949
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	940,901	(4,958,630)
2701. Special Surplus from Retroactive Reinsurance		8,924,773
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)		8,924,773
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)	59,907,933	70,070,870
DEDUCTIONS		
2. Losses incurred (Part 2, Line 34, Column 7)	32,097,042	46,543,218
3. Loss expenses incurred (Part 3, Line 25, Column 1)	7,714,335	13,399,340
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	20,219,055	17,117,575
5. Aggregate write-ins for underwriting deductions	(147,305)	5,367
6. Total underwriting deductions (Lines 2 through 5)	59,883,127	77,065,500
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	24,806	(6,994,630)
<b>INVESTMENT INCOME</b>		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	7,317,368	6,832,984
10. Net realized capital gains (losses) (Exhibit of Capital Gains (Losses))	3,255,380	2,212,229
11. Net investment gain (loss) (Lines 9 + 10)	10,572,748	9,045,213
<b>OTHER INCOME</b>		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 2,433 amount charged off \$ 162,054 )	(159,621)	(370,309)
13. Finance and service charges not included in premiums	111,253	427,126
14. Aggregate write-ins for miscellaneous income	83,738	(1,862,197)
15. Total other income (Lines 12 through 14)	35,370	(1,805,380)
16. Net income before dividends to policyholders and before federal and foreign income taxes (Lines 8 + 11 + 15)	10,632,924	245,203
17. Dividends to policyholders	82,427	(19,211)
18. Net income, after dividends to policyholders but before federal and foreign income taxes (Line 16 minus Line 17)	10,550,497	264,414
19. Federal and foreign income taxes incurred	44,179	1,647,793
20. Net income (Line 18 minus Line 19) (to Line 22)	10,506,318	(1,383,379)
<b>CAPITAL AND SURPLUS ACCOUNT</b>		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 38, Column 2)	39,257,467	36,691,800
<b>GAINS AND (LOSSES) IN SURPLUS</b>		
22. Net income (from Line 20)	10,506,318	(1,383,379)
23. Change in net unrealized capital gains or (losses)	2,027,517	3,544,672
24. Change in net unrealized foreign exchange capital gain (loss)		
25. Change in net deferred income tax	(3,336,360)	(559,611)
26. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	3,718,810	1,357,194
27. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	400,000	(400,000)
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	(778,431)	6,791
37. Change in surplus as regards policyholders for the year (Lines 22 through 36)	12,537,854	2,565,667
38. Surplus as regards policyholders, December 31 current year (Lines 21 plus Line 37) (Page 3, Line 35)	51,795,321	39,257,467
<b>DETAILS OF WRITE-INS</b>		
0501. North Carolina Private Passenger Auto Escrow	(147,305)	5,367
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)	(147,305)	5,367
1401. Other income(expense)	83,738	(1,470,027)
1402. Retroactive reinsurance (loss) gain		(392,170)
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)	83,738	(1,862,197)
3601. Change in accumulated translation adjustment	18,216	(43,209)
3602. Other surplus items	(796,647)	50,000
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)	(778,431)	6,791

<b>CASH FLOW</b>	1	2
<b>Cash from Operations</b>	Current Year	Prior Year
1. Premiums collected net of reinsurance	61,586,743	75,129,468
2. Net investment income	8,572,123	8,250,113
3. Miscellaneous income	(2,389,249)	(2,275,685)
4. Total (Lines 1 through 3)	67,769,617	81,103,896
5. Benefit and loss related payments	100,838,548	41,164,160
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	42,910,187	28,801,170
8. Dividends paid to policyholders	110,493	405,352
9. Federal and foreign income taxes paid (recovered) \$ 0 net of tax on capital gains (losses)	159,519	
10. Total (Lines 5 through 9)	144,018,747	70,370,682
11. Net cash from operations (Line 4 minus Line 10)	(76,249,130)	10,733,214
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	84,691,042	31,855,774
12.2 Stocks	3,341,974	14,100,093
12.3 Mortgage loans		
12.4 Real estate	6,186,393	
12.5 Other invested assets		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments		
12.7 Miscellaneous proceeds	5,009	
12.8 Total investment proceeds (Lines 12.1 to 12.7)	94,224,418	45,955,867
13. Cost of investments acquired (long-term only):		
13.1 Bonds	20,363,130	36,478,316
13.2 Stocks	3,259,458	5,028,607
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets		
13.6 Miscellaneous applications		8,301,264
13.7 Total investments acquired (Lines 13.1 to 13.6)	23,622,588	49,808,187
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)	70,601,830	(3,852,320)
<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)	13,479,194	(23,958,511)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	13,479,194	(23,958,511)
<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)	7,831,894	(17,077,617)
19. Cash and short-term investments:		
19.1 Beginning of year	6,974,734	24,052,351
19.2 End of year (Line 18 plus Line 19.1)	14,806,628	6,974,734

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

20.0001.		
20.0002.		
20.0003.		

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 1- PREMIUMS EARNED

Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire	376,289	620,708	369,267	627,729
2. Allied lines	718,842	252,478	329,911	641,409
3. Farmowners multiple peril	803,033	30,414	288,643	544,804
4. Homeowners multiple peril	3,302,915	5,138,271	3,068,493	5,372,693
5. Commercial multiple peril	27,666,519	1,133,913	9,874,672	18,925,760
6. Mortgage guaranty				
8. Ocean marine	(371,484)	371,483		(1)
9. Inland marine	2,264,852	302,878	824,221	1,743,509
10. Financial guaranty				
11.1 Medical malpractice - occurrence	(110)	110		
11.2 Medical malpractice - claims-made				
12. Earthquake	220,359	102,806	114,986	208,179
13. Group accident and health	(9,347)	9,347		
14. Credit accident and health (group and individual)				
15. Other accident and health	(17)	17		
16. Workers' compensation	12,686,035	(2,619,529)	3,109,697	6,956,809
17.1 Other liability - occurrence	3,322,399	1,041,622	1,593,871	2,770,150
17.2 Other liability - claims-made	(204,902)	552,896		347,994
18.1 Products liability - occurrence	102,945	(7,802)	36,962	58,181
18.2 Products liability - claims-made	(430)	430		
19.1, 19.2 Private passenger auto liability	360,523	8,594,768	2,883,877	6,071,414
19.3, 19.4 Commercial auto liability	11,238,198	1,085,835	4,211,003	8,113,030
21. Auto physical damage	4,947,261	6,020,963	3,572,522	7,395,702
22. Aircraft (all perils)	(88,959)	88,385		(574)
23. Fidelity	(12,626)	16,245	(16,478)	20,097
24. Surety	(696,934)	766,881	59,289	10,658
26. Burglary and theft	14,418	2,433	3,911	12,940
27. Boiler and machinery	5,636	10,039	9,090	6,585
28. Credit				
29. International				
30. Reinsurance-Nonproportional Assumed Property	(22,690)	22,686		(4)
31. Reinsurance-Nonproportional Assumed Liability	(96,976)	99,358		2,382
32. Reinsurance-Nonproportional Assumed Financial Lines				
33. Aggregate write-ins for other lines of business				
<b>34. TOTALS</b>	<b>66,525,749</b>	<b>23,637,633</b>	<b>30,333,937</b>	<b>59,829,445</b>

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)				

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 1A - RECAPITULATION OF ALL PREMIUMS**

(a) Gross premiums (less reinsurance) and unearned premiums on all unexpired risks and reserve for return premiums under rate credit or retrospective rating plans based upon experience, viz:

Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (b)	2 Amount Unearned (Running More Than One Year from Date of Policy) (b)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1. Fire	369,267				369,267
2. Allied lines	329,911				329,911
3. Farmowners multiple peril	288,643				288,643
4. Homeowners multiple peril	3,068,493				3,068,493
5. Commercial multiple peril	10,112,724		(238,052)		9,874,672
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	824,221				824,221
10. Financial guaranty					
11.1 Medical malpractice - occurrence					
11.2 Medical malpractice - claims-made					
12. Earthquake	114,986				114,986
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	3,365,062		(255,365)		3,109,697
17.1 Other liability - occurrence	1,669,428		(75,558)		1,593,870
17.2 Other liability - claims-made					
18.1 Products liability - occurrence	37,169		(206)		36,963
18.2 Products liability - claims-made					
19.1, 19.2 Private passenger auto liability	2,883,877				2,883,877
19.3, 19.4 Commercial auto liability	4,211,003				4,211,003
21. Auto physical damage	3,572,522				3,572,522
22. Aircraft (all perils)					
23. Fidelity	(29,744)	13,266			(16,478)
24. Surety	11,911	47,378			59,289
26. Burglary and theft	3,911				3,911
27. Boiler and machinery	9,142		(51)		9,091
28. Credit					
29. International					
30. Reinsurance-Nonproportional Assumed Property					
31. Reinsurance-Nonproportional Assumed Liability					
32. Reinsurance-Nonproportional Assumed Financial Lines					
33. Aggregate write-ins for other lines of business					
34. TOTALS	30,842,526	60,644	(569,232)		30,333,938
35. Accrued retrospective premiums based on experience					569,232
36. Earned but unbilled premiums					
37. Balance (Sum of Line 34 through 36)					30,903,170

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) By gross premiums is meant the aggregate of all the premiums written in the policies or renewals in force.  
 Are they so returned in this statement? Yes [ X ] No [ ]
- (b) State here basis of computation used in each case Daily pro rata.



## 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	Reinsurance Assumed		Reinsurance Ceded		6
	Direct Business (a)	2 From Affiliates	3 From Non-Affiliates	4 To Affiliates	5 To Non-Affiliates	Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
1. Fire	583,175	376,288		583,175		376,288
2. Allied lines	323,869	718,842		323,869		718,842
3. Farmowners multiple peril	284,745	803,033		284,745		803,033
4. Homeowners multiple peril	11,102,780	3,302,915		11,102,780		3,302,915
5. Commercial multiple peril	16,105,882	27,666,519		16,105,882		27,666,519
6. Mortgage guaranty						
8. Ocean marine		(371,484)				(371,484)
9. Inland marine	1,515,771	2,264,852		1,515,771		2,264,852
10. Financial guaranty						
11.1 Medical malpractice - occurrence		(110)				(110)
11.2 Medical malpractice - claims-made						
12. Earthquake	23,383	220,359		23,383		220,359
13. Group accident and health		(9,347)				(9,347)
14. Credit accident and health (group and individual)						
15. Other accident and health		(17)				(17)
16. Workers' compensation	13,633,377	12,686,034		13,633,376		12,686,035
17.1 Other liability - occurrence	2,711,026	3,322,400		2,711,027		3,322,399
17.2 Other liability - claims-made		(204,902)				(204,902)
18.1 Products liability - occurrence	9,534	102,945		9,534		102,945
18.2 Products liability - claims-made		(430)				(430)
19.1, 19.2 Private passenger auto liability	9,241,486	360,523		9,241,486		360,523
19.3, 19.4 Commercial auto liability	10,049,262	11,238,198		10,049,262		11,238,198
21. Auto physical damage	8,555,983	4,947,261		8,555,983		4,947,261
22. Aircraft (all perils)		(88,959)				(88,959)
23. Fidelity		(12,626)				(12,626)
24. Surety		(696,934)				(696,934)
26. Burglary and theft	114	14,418		114		14,418
27. Boiler and machinery		5,636				5,636
28. Credit						
29. International						
30. Reinsurance-Nonproportional Assumed Property	X X X	(22,690)				(22,690)
31. Reinsurance-Nonproportional Assumed Liability	X X X	(96,976)				(96,976)
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X					
33. Aggregate write-ins for other lines of business						
34. TOTALS	74,140,387	66,525,748		74,140,387		66,525,748

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	31,817	663,985	31,817	663,985	104,907	576,526	192,366	30.645
2. Allied lines	333,530	404,178	333,530	404,178	52,507	281,245	175,440	27.352
3. Farmowners multiple peril	373,843	139,041	373,843	139,041	135,108	23,448	250,701	46.017
4. Homeowners multiple peril	6,438,281	3,592,305	6,438,281	3,592,305	1,207,429	2,131,060	2,668,674	49.671
5. Commercial multiple peril	6,629,140	321,258	6,629,140	321,258	11,917,597	3,003,123	9,235,732	48.800
6. Mortgage guaranty								
8. Ocean marine		454,554		454,554	11,455	453,713	12,296	(1,229,600.000)
9. Inland marine	263,323	687,855	263,323	687,855	165,476	335,681	517,650	29.690
10. Financial guaranty								
11.1 Medical malpractice - occurrence		1,250		1,250		1,250		
11.2 Medical malpractice - claims - made								
12. Earthquake		56,277		56,277	3,728	58,586	1,419	0.682
13. Group accident and health		4,053,235		4,053,235		4,053,235		
14. Credit accident and health (group and individual)								
15. Other accident and health		37,506		37,506		37,506		
16. Workers' compensation	8,970,026	47,226,245	8,970,025	47,226,246	9,176,752	51,759,391	4,643,607	66.749
17.1 Other liability - occurrence	25,530	10,621,522	25,530	10,621,522	2,991,285	12,278,523	1,334,284	48.166
17.2 Other liability - claims - made		1,028,046		1,028,046		1,108,115	(80,069)	(23.009)
18.1 Products liability - occurrence	192,925	4,724,631	192,925	4,724,631	60,289	4,745,166	39,754	68.328
18.2 Products liability - claims - made		37,280		37,280		37,280		
19.1, 19.2 Private passenger auto liability	6,824,685	16,206,844	6,824,685	16,206,844	6,066,781	17,424,424	4,849,201	79.869
19.3, 19.4 Commercial auto liability	5,725,611	3,078,991	5,725,611	3,078,991	6,936,044	5,058,419	4,956,616	61.095
21. Auto physical damage	4,610,287	2,720,681	4,610,287	2,720,681	159,037	(496,955)	3,376,673	45.657
22. Aircraft (all perils)		420,477		420,477		419,615	862	(150.174)
23. Fidelity		48,606		48,606	1,886	48,359	2,133	10.614
24. Surety		379,101		379,101	24,665	397,662	6,104	57.272
26. Burglary and theft		20,154		20,154	80,028	22,652	77,530	599.150
27. Boiler and machinery		9,150		9,150	13,154	13,171	9,133	138.694
28. Credit		713		713		713		
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X	144,174		144,174	128,106	143,972	128,308	(3,207,700.000)
31. Reinsurance-Nonproportional Assumed Liability	X X X	1,443,606		1,443,606		1,571,713	(128,107)	(5,378.128)
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X	10,949		10,949		10,949		
33. Aggregate write-ins for other lines of business								
34. TOTALS	40,418,998	98,532,614	40,418,997	98,532,615	39,236,234	105,498,542	32,270,307	53.937

**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	123,661	87,574	123,661	87,574	20,605	17,332	20,605	104,906	579
2. Allied lines	26,099	39,544	26,099	39,544	11,160	12,962	11,160	52,506	10,492
3. Farmowners multiple peril	107,147	101,385	107,147	101,385	12,660	33,723	12,660	135,108	24,515
4. Homeowners multiple peril	1,091,090	992,964	1,091,090	992,964	391,025	214,465	391,025	1,207,429	244,749
5. Commercial multiple peril	4,994,604	7,619,032	4,994,604	7,619,032	2,659,626	4,298,565	2,659,626	11,917,597	4,785,120
6. Mortgage guaranty									
8. Ocean marine		3,295		3,295		8,160		11,455	1,573
9. Inland marine	22,499	109,239	22,499	109,239	53,525	56,237	53,525	165,476	44,741
10. Financial guaranty									
11.1 Medical malpractice - occurrence									
11.2 Medical malpractice - claims - made									
12. Earthquake					763	3,728	763	3,728	(5,086)
13. Group accident and health								(a)	53
14. Credit accident and health (group and individual)								(a)	4
15. Other accident and health									
16. Workers' compensation	15,865,801	7,212,116	17,341,241	5,736,676	9,947,697	4,668,550	11,176,168	9,176,755	1,267,013
17.1 Other liability - occurrence	1,280,500	1,141,902	1,280,500	1,141,902	12,766,258	1,849,383	12,766,258	2,991,285	540,367
17.2 Other liability - claims - made									
18.1 Products liability - occurrence	633,500	21,924	633,500	21,924	626,747	38,365	626,747	60,289	47,135
18.2 Products liability - claims - made									25
19.1, 19.2 Private passenger auto liability	5,450,585	4,402,782	5,529,665	4,323,702	2,674,028	1,761,207	2,692,156	6,066,781	1,167,778
19.3, 19.4 Commercial auto liability	5,382,079	3,698,433	5,382,079	3,698,433	3,572,842	3,237,611	3,572,842	6,936,044	1,075,374
21. Auto physical damage	369,769	248,590	369,769	248,590	24,541	(89,553)	24,541	159,037	166,652
22. Aircraft (all perils)									
23. Fidelity		1,017		1,017		869		1,886	5,159
24. Surety		(7,869)		(7,869)		32,534		24,665	35,098
26. Burglary and theft		91		91	13	79,936	13	80,027	
27. Boiler and machinery		1,074		1,074		12,080		13,154	(8,204)
28. Credit									3,686
29. International									
30. Reinsurance-Nonproportional Assumed Property	X X X	12,428		12,428	X X X	115,678		128,106	
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	35,347,334	25,685,521	36,901,854	24,131,001	32,761,490	16,351,832	34,008,089	39,236,234	9,406,823

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 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	1,253,885			1,253,885
1.2 Reinsurance assumed	4,052,202			4,052,202
1.3 Reinsurance ceded	725,717			725,717
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	4,580,370			4,580,370
2. Commission and brokerage:				
2.1 Direct excluding contingent		10,226,779		10,226,779
2.2 Reinsurance assumed excluding contingent		9,595,044		9,595,044
2.3 Reinsurance ceded excluding contingent		10,226,779		10,226,779
2.4 Contingent-direct		(1,887,061)		(1,887,061)
2.5 Contingent-reinsurance assumed		2,139,382		2,139,382
2.6 Contingent-reinsurance ceded		(1,887,061)		(1,887,061)
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)		11,734,426		11,734,426
3. Allowances to manager and agents		18,338		18,338
4. Advertising		157,595		157,595
5. Boards, bureaus and associations	10,850	125,430		136,280
6. Surveys and underwriting reports	44	348,380		348,424
7. Audit of assureds' records		5		5
8. Salary and related items:				
8.1 Salaries	1,660,624	3,633,940	6,492	5,301,056
8.2 Payroll taxes	149,093	261,611	1,224	411,928
9. Employee relations and welfare	362,937	656,607	3,352	1,022,896
10. Insurance	78,700	41,821		120,521
11. Directors' fees	20	641		661
12. Travel and travel items	122,730	304,652		427,382
13. Rent and rent items	194,220	334,863		529,083
14. Equipment	137,445	255,418	266	393,129
15. Cost or depreciation of EDP equipment and software	120,092	219,681		339,773
16. Printing and stationery	35,515	90,670	106	126,291
17. Postage, telephone and telegraph, exchange and express	102,022	252,446	53	354,521
18. Legal and auditing	21,733	56,880	24,584	103,197
19. Totals (Lines 3 to 18)	2,996,025	6,758,978	36,077	9,791,080
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 13,873		1,593,939		1,593,939
20.2 Insurance department licenses and fees		71,865		71,865
20.3 Gross guaranty association assessments		22,847		22,847
20.4 All other (excluding federal and foreign income and real estate)		37,000		37,000
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		1,725,651		1,725,651
21. Real estate expenses			251,095	251,095
22. Real estate taxes				
23. Reimbursements by uninsured accident and health plans				
24. Aggregate write-ins for miscellaneous expenses	137,940			137,940
25. Total expenses incurred	7,714,335	20,219,055	287,172 (a)	28,220,562
26. Less unpaid expenses-current year	9,406,823	3,646,672		13,053,495
27. Add unpaid expenses-prior year	20,861,328	7,128,780		27,990,108
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)	19,168,840	23,701,163	287,172	43,157,175

DETAILS OF WRITE-INS			
2401. Change in unallocated bulk reserves	137,940		137,940
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)	137,940		137,940

(a) Includes management fees of \$ 36,079 to affiliates and \$ 0 to non-affiliates.

### EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 1,767,711	1,542,894
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a) 5,875,855	5,223,395
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	880,257	880,891
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d) 439,195	439,195
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 103,099	103,705
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income	375,458	375,458
10. Total gross investment income	9,441,575	8,565,538
11. Investment expenses		(g) 287,173
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h) 871,500
14. Depreciation on real estate and other invested assets		(i) 89,497
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		1,248,170
17. Net investment income (Line 10 minus Line 16)		7,317,368
<b>DETAILS OF WRITE-INS</b>		
0901. Miscellaneous Income/(Expense)	375,458	375,458
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)	375,458	375,458
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 \$ 133,196 accrual of discount less \$ 131,916 amortization of premium and less \$ 69,152 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 \$ 439,195 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 \$ 290,500 interest on surplus notes and \$ 0 interest on capital notes.
- (i) Includes \$ 89,497 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	56,326			56,326
1.1 Bonds exempt from U.S. tax				
1.2 Other bonds (unaffiliated)	1,757,742			1,757,742
1.3 Bonds of affiliates				
2.1 Preferred stocks (unaffiliated)				
2.11 Preferred stocks of affiliates				
2.2 Common stocks (unaffiliated)	530,932	(570,248)	2,028,191	1,988,875
2.21 Common stocks of affiliates			(674)	(674)
3. Mortgage loans				
4. Real estate	1,474,628			1,474,628
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)	6,000			6,000
10. Total capital gains (losses)	3,825,628	(570,248)	2,027,517	5,282,897

<b>DETAILS OF WRITE-INS</b>				
0901. Miscellaneous gains (losses)	6,000			6,000
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)	6,000			6,000

**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	290,624	106,067	(184,557)
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	56,365		(56,365)
12.3 Accrued retrospective premiums		671,697	671,697
13. Reinsurance:			
13.1 Amounts recoverable from reinsurers		539,307	539,307
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		34,814	34,814
15.1 Current federal and foreign income tax recoverable and interest thereon			
15.2 Net deferred tax asset	1,695,599	4,168,360	2,472,761
16. Guaranty funds receivable or on deposit			
17. Electronic data processing equipment and software			
18. Furniture and equipment, including health care delivery assets	163,760	231,564	67,804
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	19,446		(19,446)
23. Aggregate write-ins for other than invested assets	1,292,689	1,485,484	192,795
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	3,518,483	7,237,293	3,718,810
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	3,518,483	7,237,293	3,718,810

DETAILS OF WRITE-INS			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 09 from overflow page			
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)			
2301. Other Assets	1,292,689	1,485,484	192,795
2302.			
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page			
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	1,292,689	1,485,484	192,795

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1- Summary of Significant Accounting Policies**

#### A. Accounting Practices

Effective January 1, 2001, and subject to any deviations prescribed or permitted by the Maryland Insurance Commissioner, the accompanying financial statements of Montgomery 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. Common stocks are carried at market value.
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 Maryland. Effective January 1, 2001, the Maryland Insurance Commissioner required that insurance companies domiciled in Maryland 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 Maryland Insurance Commissioner.

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

#### A. Statutory Purchase Method

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

#### B. Statutory Mergers

## NOTES TO FINANCIAL STATEMENTS

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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

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

**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	7,286,691	10,827,999	(3,541,308)
Total of deferred tax liabilities	(2,140,691)	(2,345,639)	204,948
Net deferred tax asset	5,146,000	8,482,360	(3,336,360)
Net deferred tax asset non-admitted	(1,695,599)	(4,168,360)	2,472,761
Net admitted deferred tax asset	<b>3,450,401</b>	<b>4,314,000</b>	<b>(863,599)</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	44,179	2,002,001
Net operating loss benefit	0	(354,208)
Foreign	0	0
Federal and foreign income tax incurred	44,179	1,647,793

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

- D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of excludible dividend income, revisions to prior year estimates 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 \$594,000 from the current year and \$363,000 from the preceding year.

The Company has an AMT credit carryforward of \$387,827 that does not expire.

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

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

- A. All of the outstanding shares of capital stock of the Company are held by Liberty Mutual Insurance Company (the "Parent Company"), a Massachusetts company. Liberty Mutual Insurance Company is wholly owned by Liberty Mutual Group, Inc., a Massachusetts company.
- 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 \$1,021,487 due from affiliates. In general, the terms of the intercompany arrangements require settlement at least quarterly.
- E. The Company has made no guarantee or initiated undertaking for the benefit of affiliates which result in a material contingent exposure of the Company's or affiliates' assets or liabilities.
- F. See Note 26 for information regarding intercompany pooling arrangement

There is a Service Agreement between the Company and Liberty Mutual Insurance Company, under which Liberty Mutual Insurance Company provides the Company with services of personnel employed by the Liberty Mutual Insurance Company, office space, supplies, equipment, telephone and wire services, the use of computers and similar machines to the extent necessary or appropriate. The Company has an investment services agreement with Liberty Mutual Insurance Company.

- 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 & J. The Company has no investments in subsidiary, controlled or affiliated companies.

### **Note 11- Debt**

Not applicable.

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

The Company does not have any direct employees and therefore, does not have any direct obligations for a defined benefit plan, deferred compensation arrangements, compensated absences or other post retirement benefit plans. Services for the operation of the Company are provided under provisions of an intercompany cost-sharing arrangement as described in note 10(f).

## NOTES TO FINANCIAL STATEMENTS

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

1. Capital Stock

The Company is organized as a Mutual Insurance Company.

2. Dividend Restrictions

There are no dividend restrictions.

3. Preferred Stock

Not applicable

4. Stockholder Dividend Restrictions

Not applicable

5. The Company does not have restricted surplus.

6. The Company had no advances to surplus.

7. The Company did not hold stock for special purposes.

8. The Company does not have 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)	\$5,684,219	\$2,027,517
b. Nonadmitted asset values	(3,518,483)	3,718,810
c. Provision for reinsurance	0	400,000
Total	\$2,165,736	\$6,146,327

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
Mar. 31, 1998	6.82%	\$10,000,000	\$10,000,000	\$682,000	\$4,433,000	\$0	3/31/2010
Sept. 30, 2002	6.00%	\$8,000,000	\$8,000,000	\$480,000	\$960,000	\$0	9/30/2017
Total:		\$18,000,000	\$18,000,000	\$1,162,000	\$5,393,000	\$0	

The surplus notes, in the amount of \$18,000,000, listed in 13.10 was issued to Liberty Mutual Insurance Company (an affiliated company) in exchange for cash. The surplus notes have the following repayment conditions: all interest and maturity payments must be approved by the Insurance Commissioner of the State of Maryland.

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 and 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.

The Company has accrued a liability for guaranty fund and other assessments of \$414,193 that is offset by future premium tax credits of \$125,720. This represents management's best estimate based on information received from the states in which the Company writes business and may change due to factors including the company's share of the ultimate cost of current insolvencies. Current assessments are expected to be paid out in the next five years, while premium tax offsets are expected to be realized in the next eleven years, beginning in 2005.

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## NOTES TO FINANCIAL STATEMENTS

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During 2004 there were no material insolvencies to report. The company continues to remit payments relating to prior year insolvencies.

On October 3, 2001, the Company received notification of the insolvency of the Reliance Insurance Group. It is expected the insolvency will result in a guaranty fund assessment against the company of \$342,376 that has been charged to operations in the prior year, and any remaining unpaid balance is included in the liability above.

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

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

2005	\$295,061
2006	\$249,541
2007	\$213,667
2008	\$182,313
2009	\$112,593
2010 & thereafter	\$321,567
Total	\$1,374,742

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 With Concentrations of Credit Risk**

The Company is not exposed to financial instruments with off-balance sheet 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 transfers of receivables reported as sales.

B. Transfers and servicing of financial assets:

The Company participates in Securities lending program to generate additional income, whereby certain fixed income securities are loaned for a short period of time from the Company's portfolio to qualifying third parties, via a lending agent. Borrowers of these securities provide collateral equal to or in excess of, 102% of the market value of the loaned securities. Acceptable collateral may be in the form of cash or U.S. Government securities. The market value of the loaned securities is monitored and additional collateral is obtained if the market value of the collateral falls below 100% of the market value of the loaned securities. Under the terms of the securities lending program, the lending agent indemnifies the Company against borrower defaults. The loaned securities remain a recorded asset of the Company, however, the Company records a liability for the amount of collateral held, representing its obligation to return the collateral related to the loaned securities. At December 31, 2004, the total market value of fixed maturities loaned was \$4,807,930, with corresponding collateral value at \$4,903,656.

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

Not applicable

## NOTES TO FINANCIAL STATEMENTS

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

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

### Note 20 – September 11 Events

The Company did not have material exposure to losses arising from the World Trade Center disaster of September 11, 2001.

### 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) The following is in answer to General Interrogatories, Part 2, 6.1, 6.2 and 6.3.

- 1 The Company participates in a Liberty Mutual Group cover in the amount of \$400 million in excess of \$100 million. The Company also has a cover of \$75 million in excess of \$25 million and underlying casualty excess reinsurance to \$25 million.
- 2 The Company tracks aggregate property exposure for homeowners and commercial risks. The highest concentrations of risk are located in Connecticut and Rhode Island. The Company utilizes the services of a broker and RMS and AIR software models to estimate the probable maximum loss.
- 3 The Company maintains a property excess reinsurance agreement with a retention of \$3,000,000 which inures to the benefit of the property catastrophe treaty. The Company has a \$50 million retention on the property catastrophe treaty and limits of \$150 million. There is additional coverage for the Northeast and additional earthquake coverage for the New Madrid area to \$250 million. The Company also participates in a Liberty Mutual Group cover in the amount of \$750 million in excess of \$250 million.

The Company's Property Excess treaties exclude terrorism coverage. The Company purchased property terrorism reinsurance of \$20 million in excess of \$5 million per event. The Company's Casualty Excess agreements provide terrorism coverage equal to one times the layer or \$5,000,000 whichever is lower. Second Event Casualty terrorism reinsurance of \$10 million in excess of \$5 million per event was purchased. In addition the Company participates in a Cross Line Terrorism agreement for the Liberty Mutual Group which provides \$200 million in excess of \$150 million.

2) Assets in the amount of \$6,075,502 and \$6,721,899 as of December 31, 2004 and 2003, respectively, were on deposit with government authorities or trustees as required by law.

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

E. Business Interruption Insurance Recoveries

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 following table sets forth the maximum return premium and commission equity due the reinsurer or the Company if all of the Company's assumed and ceded reinsurance were canceled as of December 31, 2004.

	<u>Assumed Reinsurance</u>		<u>Ceded Reinsurance</u>		<u>Net Reinsurance</u>	
	<u>UEP</u>	<u>Commission Equity</u>	<u>UEP</u>	<u>Commission Equity</u>	<u>UEP</u>	<u>Commission Equity</u>
Affiliates	\$30,903,170	\$4,262,722	\$34,242,406	\$4,723,330	(\$3,339,236)	\$(460,608)
All Other	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$30,903,170</b>	<b>\$4,262,722</b>	<b>\$34,242,406</b>	<b>\$4,723,330</b>	<b>(\$3,339,236)</b>	<b>\$(460,608)</b>

Direct unearned premium reserve \$34,242,406

## NOTES TO FINANCIAL STATEMENTS

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

Direct	\$12,000
Assumed	\$2,214,302
Ceded	\$(12,000)
Net	<u>\$2,214,302</u>

- 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 write loss responsive policies or policies subject to redetermination.

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

The estimated cost of loss and loss adjustment expenses attributed to insured events of prior years increased by \$540,009 during 2004. This represents 1.1% of unpaid losses and loss adjustment expenses of \$48,643,000 as of December 31, 2004. Increases or decreases of this nature occur as the result of claim settlements during the calendar year, and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and loss adjustment expenses.

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

The Company is a member of the Liberty Insurance Holdings (LIH) Inter-Company Reinsurance Agreement consisting of the following affiliated companies:

		NAIC Co. #	Pooling %	Line of Business
Lead Company:	Peerless Insurance Company (PIC)	24198	41.59%	All Lines
Affiliated Pool Companies:	Peerless Indemnity Insurance Company (PIIC)	18333	27.36%	All Lines
	Golden Eagle Insurance Corporation (GEIC)	10836	13.25%	All Lines
	Indiana Insurance Company (IIC)	22659	12.25%	All Lines
	The Netherlands Insurance Company (NIC)	24171	3.27%	All Lines
	Montgomery Mutual Insurance Company (MMC)	14613	2.28%	All Lines
			<u>100.00%</u>	
100% Quota Share ("Fronted")	Excelsior Insurance Company (EIC)	11045	0.00%	All Lines
Affiliated Companies:	Consolidated Insurance Company (CIC)	22640	0.00%	All Lines
	America First Insurance Company (AFIC)	12696	0.00%	All Lines
	Merchants and Business Men's Mutual Insurance Company (M&B)	14486	0.00%	All Lines
	Liberty County Mutual Insurance Company (LCMIC)	19544	0.00%	All Lines
	Colorado Casualty Insurance Company (CCIC)	41785	0.00%	All Lines
	National Insurance Association (NIA)	27944	0.00%	All Lines
	The Midwestern Indemnity Company (MIC)	23515	0.00%	All Lines
	Mid-America Fire & Casualty Company (MAFCC)	23507	0.00%	All Lines
	Globe American Casualty Company (GACC)	11312	0.00%	All Lines
	American Ambassador Casualty Company (AACC)	10073	0.00%	All Lines
	Hawkeye-Security Insurance Company (HSIC)	36919	0.00%	All Lines
	America First Lloyds Insurance Company (AFLIC)	11526	0.00%	All Lines

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

- (a) Each Affiliated Pool Company cedes its net underwriting activity to the lead company
- (b) With the exception of MIC, MAFCC, GACC, AACC, and HSIC, all fronted companies cede its net underwriting activity to the lead company. MIC, MAFCC, GACC, AACC, and HSIC cede its net underwriting activity to PIIC.
- (c) After recording the assumed affiliate transactions noted above, the lead company records 100% of its external assumed and ceded reinsurance activity.
- (d) The lead company's remaining underwriting activity, after processing all internal and external reinsurance, is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above.
- (e) There were no members that are parties to reinsurance agreements with non-affiliated reinsurers covering business

## NOTES TO FINANCIAL STATEMENTS

subject to the pooling agreement and have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.

- (f) There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the lead company and corresponding entries on the assumed and ceded reinsurance schedules of other pooled participants.
- (g) The write-off of uncollectible reinsurance is pooled and the Provision for Reinsurance is recognized by the entity placing the outbound external reinsurance.

During 2004, the following changes were made to the pool:

Pursuant to the approval of the appropriate State Insurance Departments, effective January 1, 2004, Golden Eagle Insurance Corporation and Montgomery Mutual Insurance Company, cancelled its participation in the Liberty Mutual Inter-Company Reinsurance Agreement and concurrently became a member of the LIH Inter-Company Reinsurance Agreement.

The LIH Pool Participation percentages were revised as follows:

	<u>2004</u>	<u>2003</u>
Peerless Insurance Company	41.59	41.59
Peerless Indemnity Insurance Company	27.36	27.36
Golden Eagle Insurance Corporation	13.25	-
Indiana Insurance Company	12.25	27.78
Netherlands Insurance Company	3.27	3.27
Montgomery Mutual Insurance Company	2.28	-

Also effective January 1, 2004, GEIC entered into a Fronting Agreement with Liberty Mutual Insurance Company (LMIC), the lead company in the Liberty Mutual Inter-Company Reinsurance Agreement, whereby it would continue to cede 100% of its workers' compensation activity to LMIC.

Additionally, pursuant to the approval of the appropriate state insurance departments, effective January 1, 2004, Merchants & Businessmen's Mutual Insurance Company and Colorado Casualty Insurance Company cancelled its Fronting Agreements with LMIC and concurrently entered into Fronting Agreements with Peerless Insurance Company (PIC), the lead company in the LIH Inter-Company Reinsurance Agreement. Under the terms of the Fronting Agreements, after processing its external reinsurance, each company would cede 100% of its direct underwriting activity to PIC.

The above transactions resulted in the companies transferring their in-force business, as of January 1, 2004 (except for GEIC's workers' compensation business), to the LIH Inter-Company Reinsurance Agreement and compensating the companies in the LIH Inter-Company Reinsurance Agreement by a like amount. There were no gains or losses to surplus as a result.

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

- A. As a result of purchased annuities with the claimant as payee, The Company no longer carries reserves of \$538,292 after applying Inter-Company Reinsurance Agreement percentages. The Company is contingently liable should the issuers of the purchased annuities fail to perform under the terms of the annuities. The amount of unrecorded loss contingencies related to the purchased annuities was \$538,292 as of December 31, 2004.
- B. The Company does not have material structured settlements from life insurers for which the Company has not obtained a release of liability from the claimant.

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

Not applicable

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

This note does not apply to property and casualty insurers.

### **Note 30 - Premium Deficiency Reserves**

As of December 31, 2004, the Company had no liabilities related to premium deficiency reserves. The Company considers anticipated investment income when calculating its premium deficiency reserves.

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

The Company does not have any high deductible policies.

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

For Workers Compensation, the Company discounts its reserves for unpaid losses using a tabular discount on the long-term annuity portion of certain workers compensation claims. The tabular discount is based on Unit Statistical Plan tables as approved by the respective states at an annual discount rate of 3.5%. The December 31, 2004 liabilities of \$10,909,622 are carried at a discounted value of \$10,443,765 representing a discount of \$465,857.

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

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## NOTES TO FINANCIAL STATEMENTS

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

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

Upon their de-affiliation from the Nationwide Group and re-affiliation with the Company, EICOW, Wausau Business Insurance Company ("WBIC"), Wausau General Insurance Company ("WGIC"), and Wausau Underwriters Insurance Company ("WUIC") entered into ceded reinsurance contracts whereby Nationwide Indemnity Company assumed full responsibility for obligations on certain policies with effective dates prior to January 1, 1986, including all asbestos and environmental exposures.

#### Factors Contributing to Uncertainty in Establishing Adequate Reserves

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

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

In recent years the Company, as well as the industry generally, has witnessed a significant increase in the number of asbestos claims being filed, due to a number of variables, including more intensive advertising by lawyers seeking asbestos claimants, and the increasing focus by plaintiffs on new and previously peripheral defendants, attempts to broaden the interpretation of compensable loss, and courts expanding the scope of the coverage.

#### Uncertainty Regarding Reserving Methodologies

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

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

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

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

The table below summarizes reserve and loss activity for the Company's asbestos and environmental loss and loss adjustment expenses for each of the five most recent calendar years. Gross reserves for both asbestos and environmental are representative of all Liberty Insurance Holdings pooled companies. Net reserves for asbestos and environmental are allocated based on the Company's Intercompany Reinsurance Agreement as discussed in Note 26.

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**NOTES TO FINANCIAL STATEMENTS**


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<u>Asbestos</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Gross of Reinsurance Basis</b>					
Beginning Reserves	\$16,244,749	\$13,296,273	\$13,211,412	\$16,545,756	\$18,188,505
Incurred losses and LAE	(1,205,640)	1,532,145	5,750,000	3,439,443	3,232,526
Calendar year payments	1,742,836	1,617,006	2,415,656	1,796,694	3,033,728
Ending Reserves	\$13,296,273	\$13,211,412	\$16,545,756	\$18,188,505	\$18,387,303
<b>Net of Reinsurance Basis</b>					
Beginning Reserves	\$297,286	\$241,347	\$242,644	\$288,529	\$358,685
Incurred losses and LAE	(19,846)	31,619	92,340	111,121	27,194
Calendar year payments	36,093	30,322	46,455	40,965	58,147
Ending Reserves	\$241,347	\$242,644	\$288,529	\$358,685	\$327,732
<b>Ending Reserves for Bulk + IBNR included above (Loss &amp; LAE)</b>					\$14,015,462
Gross of Reinsurance Basis					\$261,281
Net of Reinsurance Basis:					
<b>Ending Reserves for LAE included above (Case, Bulk &amp; IBNR)</b>					\$3,849,699
Gross of Reinsurance Basis					\$76,591
Net of Reinsurance Basis:					
<b>Environmental:</b>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Gross of Reinsurance Basis</b>					
Beginning Reserves	\$34,681,718	\$29,021,738	\$21,251,007	\$13,286,937	\$18,023,816
Incurred losses and LAE	(3,282,667)	(3,352,796)	0	5,547,367	1,807,253
Calendar year payments	2,377,313	4,417,935	7,964,070	810,488	1,282,776
Ending Reserves	\$29,021,738	\$21,251,007	\$13,286,937	\$18,023,816	\$18,548,293
<b>Net of Reinsurance Basis</b>					
Beginning Reserves	\$576,509	\$466,208	\$419,963	\$238,398	\$398,167
Incurred losses and LAE	(59,284)	53,357	0	178,248	4,414
Calendar year payments	51,017	99,602	181,565	18,479	69,019
Ending Reserves	\$466,208	\$419,963	\$238,398	\$398,167	\$333,562
<b>Ending Reserves for Bulk + IBNR included above (Loss &amp; LAE)</b>					\$16,786,342
Gross of Reinsurance Basis					\$326,212
Net of Reinsurance Basis:					
<b>Ending Reserves for LAE included above (Case, Bulk &amp; IBNR)</b>					\$4,705,188
Gross of Reinsurance Basis					\$93,611
Net of Reinsurance Basis:					

**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	10,155,388	9.363	10,155,388	9.363
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies				
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				
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations	125,000	0.115	125,000	0.115
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	4,678,202	4.313	4,678,202	4.313
1.512 Issued or guaranteed by FNMA and FHLMC				
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	22,546,402	20.787	22,546,402	20.787
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	2,087,949	1.925	2,087,949	1.925
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	27,216,665	25.092	27,216,665	25.092
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	4,098,411	3.779	4,098,411	3.779
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	21,132,088	19.483	21,132,088	19.483
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated	1,619,279	1.493	1,619,279	1.493
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				
8. Cash, cash equivalents and short-term investments	14,806,628	13.651	14,806,628	13.651
9. Other invested assets				
10. Total invested assets	108,466,012	100.000	108,466,012	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? Maryland
- 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). 11/26/2001
- 3.4 By what department or departments? Maryland 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 [ ] No [ X ]
- 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	2	3	4	5	6	7
Affiliate Name	Location (City, State)	FRB	OCC	OTS	FDIC	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, L.L.P.  
 1 North Charles Street, Baltimore, MD 21201
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	100,000	100,000	100.00	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 [ X ] No [ ]

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
JP Morgan Chase	3 Chase Metro Tech Center, Brooklyn, NY 11245

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
110106	Atlantic Trust Pell Rudman	300 Lombard Street Suite 1100, Baltimore, Maryland

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	81,335,657	83,900,992	2,565,336
25.2 Preferred stocks			
25.3 Totals	81,335,657	83,900,992	2,565,336

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? \$ 721,358

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
Insurance Services Office Inc.	\$ 279,976
	\$
	\$
	\$
	\$

28.1 Amount of payments for legal expenses, if any? \$ 135,756

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
Maryland Insurance	\$ 100,000
	\$
	\$
	\$
	\$

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	\$ _____	\$ 255,395
2.2 Premium Denominator	\$ _____	\$ 70,085,005
2.3 Premium Ratio (2.1/2.2)	_____	_____
2.4 Reserve Numerator	\$ _____	\$ 50,977
2.5 Reserve Denominator	\$ _____	\$ 12,484,283
2.6 Reserve Ratio (2.4/2.5)	_____	_____

3.1 Does the reporting entity issue both participating and non-participating policies? YES [X] NO [ ]  
 3.2 If yes, state the amount of calendar year premiums written on:  
     3.21 Participating policies \$ 648,076  
     3.22 Non-participating policies \$ 73,482,311

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

5. For Reciprocal Exchanges Only:  
 5.1 Does the exchange appoint local agents? YES [ ] NO [X]  
 5.2 If yes, is the commission paid:  
     5.21 Out of Attorney's-in-fact compensation YES [ ] NO [ ] N/A [X]  
     5.22 As a direct expense of the exchange YES [ ] NO [ ] N/A [X]

5.3 What expenses of the Exchange are not paid out of the compensation of the Attorney-in-fact? \_\_\_\_\_  
 \_\_\_\_\_  
 5.4 Has any Attorney-in-fact compensation, contingent on fulfillment of certain conditions, been deferred? YES [ ] NO [X]  
 5.5 If yes, give full information \_\_\_\_\_  
 \_\_\_\_\_

**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: See Note 21 C (1)
- 6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process: See Note 21 C (1)
- 6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss? See Note 21 C (1)
- 6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? YES  NO
- 6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to uninsured catastrophic loss
- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract 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
- 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
- 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  NO  N/A
- 10.1 Has the reporting entity guaranteed policies issued by any other entity and now in force? YES  NO
- 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  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
- 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
- 12.3 If yes, what amount? \$ \_\_\_\_\_
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ \_\_\_\_\_ 88,920
- 13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? YES  NO
- 13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. \_\_\_\_\_ 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 Incurred	Direct Losses Unpaid	Direct Written Premium	Direct Premium Unearned	Direct Premium 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)	63,149,343	84,288,224	68,537,308	67,367,284	82,461,377
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	19,544,315	23,888,462	20,741,364	19,402,341	23,925,999
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	58,811,067	40,431,056	33,260,104	32,818,701	33,772,375
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	(718,924)	1,414,614	4,304,402	4,373,499	4,864,496
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(119,666)	1,771,355	1,164,428	363,152	654,003
6. Total (Line 34)	140,666,135	151,793,711	128,007,606	124,324,977	145,678,250
<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)	27,504,658	46,071,838	40,197,205	34,986,299	34,895,601
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	8,542,020	13,045,915	12,239,738	11,282,427	10,229,986
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	31,317,660	11,531,443	9,431,306	8,181,937	8,132,171
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	(718,924)	1,414,614	4,304,402	4,373,499	4,864,496
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(119,666)	1,771,355	1,164,428	363,152	654,003
12. Total (Line 34)	66,525,748	73,835,165	67,337,079	59,187,314	58,776,257
<b>Statement of Income</b> (Page 4)					
13. Net underwriting gain (loss) (Line 8)	24,806	(6,994,630)	(5,543,733)	(18,798,618)	(9,863,614)
14. Net investment gain (loss) (Line 11)	10,572,748	9,045,213	7,459,561	7,210,752	9,339,007
15. Total other income (Line 15)	35,370	(1,805,380)	(1,200,105)	5,469,208	2,471,444
16. Dividends to policyholders (Line 17)	82,427	(19,211)	519,006	618,081	750,348
17. Federal and foreign income taxes incurred (Line 19)	44,179	1,647,793	(1,576,044)	(66,586)	(1,714,153)
18. Net income (Line 20)	10,506,318	(1,383,379)	1,772,761	(6,670,153)	2,910,642
<b>Balance Sheet Lines</b> (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	135,249,990	206,555,910	219,440,483	200,481,392	208,852,434
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 12.1)	2,953,197	7,083,216	7,277,263	6,492,900	6,010,247
20.2 Deferred and not yet due (Line 12.2)	17,007,382	12,321,591	10,363,400	8,345,097	8,279,910
20.3 Accrued retrospective premiums (Line 12.3)		6,372,754	5,595,765	5,768,407	4,985,673
21. Total liabilities excluding protected cell business (Page 3, Line 24)	83,454,669	167,298,443	173,946,802	158,036,225	156,123,451
22. Losses (Page 3, Lines 1 and 2)	39,236,236	105,622,955	99,442,944	103,375,131	98,939,658
23. Loss adjustment expenses (Page 3, Line 3)	9,406,821	20,861,326	18,983,396	20,047,247	20,667,685
24. Unearned premiums (Page 3, Line 9)	30,903,170	30,682,085	25,805,376	22,049,647	20,471,500
25. Capital paid up (Page 3, Lines 28 & 29)			1,500,000	1,500,000	1,500,000
26. Surplus as regards policyholders (Page 3, Line 35)	51,795,321	39,257,467	36,691,800	34,145,260	47,093,431
<b>Risk-Based Capital Analysis</b>					
27. Total adjusted capital	51,795,321	39,257,467	36,691,800	34,145,260	43,947,905
28. Authorized control level risk-based capital	5,830,828	10,395,904	10,158,575	9,231,263	9,695,133
<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)	61.6	77.8	67.4	69.6	65.8
30. Stocks (Lines 2.1 & 2.2)	24.8	15.0	16.5	21.2	23.2
31. Mortgage loans on real estate (Lines 3.1 and 3.2)					
32. Real estate (Lines 4.1, 4.2 & 4.3)		3.0	2.8	3.1	2.9
33. Cash and short-term investments (Line 5)	13.7	4.2	13.1	5.7	7.6
34. Contract loans (Line 6)			XXX	XXX	XXX
35. Other invested assets (Line 7)					
36. Receivable for securities (Line 8)					
37. Aggregate write-ins for invested assets (Line 9)			0.3	0.4	0.5
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)			9,174,259	8,672,287	9,153,456
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			9,174,259	8,672,287	9,153,456
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)			25.0	25.4	19.4

**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)	2,027,517	3,544,672	(4,840,835)	(4,169,467)	(4,518,970)
48. Dividends to stockholders (Line 34)					
49. Change in surplus as regards policyholders for the year (Line 37)	12,537,854	2,565,667	3,048,514	(10,283,814)	(1,438,989)
<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)	104,663,586	53,122,520	53,065,449	54,510,554	58,564,600
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	9,792,087	11,955,044	10,384,960	13,866,678	14,911,004
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	18,378,049	19,134,781	17,134,494	22,427,655	24,038,141
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	4,519,161	2,363,738	3,471,770	2,986,307	3,033,408
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	1,598,729	814,414	844,933	576,313	687,009
55. Total (Line 34)	138,951,612	87,390,497	84,901,606	94,367,507	101,234,162
<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)	82,924,810	27,228,495	32,347,788	32,248,814	33,325,358
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	4,553,130	6,098,386	6,114,151	7,010,159	6,579,150
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	4,936,785	4,753,809	5,343,486	6,268,134	5,142,062
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	4,519,161	2,363,738	3,471,770	2,986,307	3,033,408
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	1,598,729	814,414	844,933	576,313	687,009
61. Total (Line 34)	98,532,615	41,258,842	48,122,128	49,089,727	48,766,987
<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)	53.6	66.4	68.6	89.1	76.6
64. Loss expenses incurred (Line 3)	12.9	19.1	23.9	19.0	21.0
65. Other underwriting expenses incurred (Line 4)	33.8	24.4	23.9	24.8	23.8
66. Net underwriting gain (loss) (Line 8)		(10.0)	(8.8)	(32.0)	(17.3)
<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)	30.1	25.6	24.1	16.5	23.1
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	66.5	85.5	80.0	105.3	90.0
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)	128.4	188.1	183.5	173.2	124.9
<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)	541	5,870	4,887	9,661	2,669
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)	1.4	16.0	13.3	28.3	5.7
<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)	2,568	12,325	18,512	12,694	(58)
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)	7.0	36.1	54.2	27.0	(0.1)

**SCHEDULE D - SUMMARY BY COUNTRY**

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

Description		1	2	3	4
		Book/Adjusted Carrying Value	Fair Value	Actual Cost	Par Value of Bonds
<b>BONDS</b>					
Governments (Including all obligations guaranteed by governments)	1. United States .....	14,833,590	15,346,480	14,933,580	14,743,469
	2. Canada .....				
	3. Other Countries .....				
	4. Totals	14,833,590	15,346,480	14,933,580	14,743,469
States, Territories and Possessions (Direct and guaranteed)	5. United States .....				
	6. Canada .....				
	7. Other Countries .....				
	8. Totals				
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 .....	22,546,402	22,771,529	22,566,516	22,615,672
	14. Canada .....				
	15. Other Countries .....				
	16. Totals	22,546,402	22,771,529	22,566,516	22,615,672
Public Utilities (unaffiliated)	17. United States .....	1,507,254	1,640,475	1,497,220	1,500,000
	18. Canada .....				
	19. Other Countries .....				
	20. Totals	1,507,254	1,640,475	1,497,220	1,500,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States .....	25,426,301	26,804,194	25,213,854	25,245,000
	22. Canada .....	501,739	545,995	502,120	500,000
	23. Other Countries .....	1,994,320	2,199,000	1,988,430	2,000,000
	24. Totals	27,922,360	29,549,189	27,704,404	27,745,000
Parent, Subsidiaries and Affiliates	25. Totals				
	<b>26. Total Bonds</b>	66,809,606	69,307,673	66,701,720	66,604,141
<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 .....	2,556,399	2,556,399	1,867,962	
	46. Canada .....				
	47. Other Countries .....				
	48. Totals	2,556,399	2,556,399	1,867,962	
Industrial and Miscellaneous (unaffiliated)	49. United States .....	23,603,201	23,603,201	19,329,109	
	50. Canada .....				
	51. Other Countries .....	690,178	690,178	562,932	
	52. Totals	24,293,379	24,293,379	19,892,041	
Parent, Subsidiaries and Affiliates	53. Totals				
	<b>54. Total Common Stocks</b>	26,849,778	26,849,778	21,760,003	
	55. Total Stocks	26,849,778	26,849,778	21,760,003	
	56. Total Bonds and Stocks	93,659,384	96,157,451	88,461,723	

**SCHEDULE D - VERIFICATION BETWEEN YEARS**

1. Book/adjusted carrying value of bonds and stocks, prior year .....	154,265,590	6. Foreign Exchange Adjustment:	
2. Cost of bonds and stocks acquired, Column 7, Part 3 .....	23,622,588	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 .....	16,125	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 .....	2,366,392	7. Book/adjusted carrying value at end of current period .....	93,659,384
3.4 Column 14, Part 4 .....	(923,294)	8. Total valuation allowance .....	
4. Total gain (loss), Column 19, Part 4 .....	2,344,999	9. Subtotal (Lines 7 plus 8) .....	93,659,384
5. Deduct consideration for bonds and stocks disposed of Column 7, Part 4 .....	88,033,016	10. Total nonadmitted amounts .....	
		11. Statement value of bonds and stocks, current period .....	93,659,384

**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	188	67	62	8	12	1	7	186	X X X
2. 1995	32,826	3,185	29,641	18,510	1,089	1,496	87	1,821	21	768	20,630	X X X
3. 1996	34,612	4,144	30,468	22,541	2,413	1,893	150	2,180	135	900	23,916	X X X
4. 1997	39,414	6,667	32,747	24,623	4,420	2,039	310	2,863	464	1,050	24,331	X X X
5. 1998	45,781	8,924	36,857	29,256	7,799	2,230	470	3,752	958	1,087	26,011	X X X
6. 1999	42,415	6,634	35,781	28,376	5,393	2,006	316	3,588	709	1,041	27,552	X X X
7. 2000	40,446	5,216	35,230	26,779	4,319	1,836	167	3,166	411	942	26,884	X X X
8. 2001	43,316	5,953	37,363	24,469	3,482	1,675	100	2,986	324	824	25,224	X X X
9. 2002	57,088	13,425	43,663	26,773	6,368	1,364	276	2,449	553	803	23,389	X X X
10. 2003	64,509	10,797	53,712	22,031	3,308	951	144	3,872	977	731	22,425	X X X
11. 2004	65,383	5,475	59,908	12,856	627	265	3	2,596	138	455	14,949	X X X
12. Totals	X X X	X X X	X X X	236,402	39,285	15,817	2,031	29,285	4,691	8,608	235,497	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	1,294	162	772	51			89	13	102	28	6	2,003	X X X
2. 1995	110	5	42	19			18	3	8	2	10	149	X X X
3. 1996	231	37	54	23			37	5	15	3	14	269	X X X
4. 1997	316	83	134	60			69	15	24	5	19	380	X X X
5. 1998	1,123	755	387	178			172	37	77	19	33	770	X X X
6. 1999	873	580	517	227			235	45	80	18	51	835	X X X
7. 2000	1,082	450	686	284			369	57	104	22	78	1,428	X X X
8. 2001	2,483	1,453	1,209	393			562	71	212	43	117	2,506	X X X
9. 2002	5,909	1,119	1,885	704			1,041	125	443	68	277	7,262	X X X
10. 2003	6,159	1,147	3,639	1,622			1,539	317	631	86	412	8,796	X X X
11. 2004	10,803	462	10,765	1,424			3,384	206	1,602	217	872	24,245	X X X
12. Totals	30,383	6,253	20,090	4,985			7,515	894	3,298	511	1,889	48,643	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	1,853	150
2. 1995	22,005	1,226	20,779	67.035	38.493	70.102			2.300	128	21
3. 1996	26,951	2,766	24,185	77.866	66.747	79.378			2.300	225	44
4. 1997	30,068	5,357	24,711	76.288	80.351	75.460			2.300	307	73
5. 1998	36,997	10,216	26,781	80.813	114.478	72.662			2.300	577	193
6. 1999	35,675	7,288	28,387	84.109	109.858	79.335			2.300	583	252
7. 2000	34,022	5,710	28,312	84.117	109.471	80.363			2.300	1,034	394
8. 2001	33,596	5,866	27,730	77.560	98.539	74.218			2.300	1,846	660
9. 2002	39,864	9,213	30,651	69.829	68.626	70.199			2.300	5,971	1,291
10. 2003	38,822	7,601	31,221	60.181	70.399	58.127			2.300	7,029	1,767
11. 2004	42,271	3,077	39,194	64.651	56.201	65.424			2.300	19,682	4,563
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	39,235	9,408

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	14,353	13,783	13,742	14,119	14,282	14,202	13,689	14,432	14,399	14,518	119	86
2. 1995	20,425	19,412	19,176	19,142	19,184	19,161	19,006	19,105	19,099	18,988	(111)	(117)
3. 1996	X X X	22,495	22,199	22,244	22,149	22,199	22,242	22,332	22,287	22,134	(153)	(198)
4. 1997	X X X	X X X	21,435	22,130	22,142	22,133	22,133	22,171	22,239	22,296	57	125
5. 1998	X X X	X X X	X X X	23,593	23,562	23,559	23,599	23,523	23,647	23,931	284	408
6. 1999	X X X	X X X	X X X	X X X	23,653	24,200	24,538	24,885	25,186	25,453	267	568
7. 2000	X X X	X X X	X X X	X X X	X X X	23,483	24,548	25,005	25,495	25,514	19	509
8. 2001	X X X	X X X	X X X	X X X	X X X	X X X	24,537	24,021	24,464	24,944	480	923
9. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X	28,240	28,582	28,504	(78)	264
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	28,138	27,795	(343)	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	35,390	X X X	X X X
12. Totals											541	2,568

**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	4,608	3,405	9,440	10,457	11,065	11,554	12,059	12,290	12,417	X X X	X X X
2. 1995	9,175	13,925	15,931	17,226	18,017	18,437	18,684	18,766	18,827	18,830	X X X	X X X
3. 1996	X X X	11,930	16,721	18,743	20,266	21,070	21,642	21,857	21,924	21,871	X X X	X X X
4. 1997	X X X	X X X	10,708	16,002	18,523	20,106	21,034	21,483	21,750	21,932	X X X	X X X
5. 1998	X X X	X X X	X X X	11,443	17,185	19,943	21,421	22,321	22,840	23,217	X X X	X X X
6. 1999	X X X	X X X	X X X	X X X	12,023	18,116	20,990	22,871	23,853	24,673	X X X	X X X
7. 2000	X X X	X X X	X X X	X X X	X X X	11,933	18,434	21,382	23,121	24,129	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	12,147	18,199	20,711	22,562	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	11,424	18,150	21,493	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	13,115	19,530	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	12,491	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	4,191	2,154	1,645	1,426	1,011	801	579	872	1,491	797
2. 1995	5,737	1,995	1,069	578	380	254	96	119	165	38
3. 1996	X X X	5,173	2,152	1,237	463	313	126	127	137	63
4. 1997	X X X	X X X	4,941	2,487	1,132	668	307	183	173	128
5. 1998	X X X	X X X	X X X	5,742	2,208	1,390	861	394	288	344
6. 1999	X X X	X X X	X X X	X X X	4,790	2,127	1,243	662	391	480
7. 2000	X X X	X X X	X X X	X X X	X X X	4,370	2,431	1,421	887	714
8. 2001	X X X	X X X	X X X	X X X	X X X	X X X	4,969	2,583	1,224	1,307
9. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X	9,968	5,117	2,097
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	6,584	3,239
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	12,519

**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	NO							
8. Delaware	DE	YES	6,751,328	6,742,384	18,409	3,938,780	4,110,029	3,947,584	37,005
9. Dist. Columbia	DC	YES	1,814,487	2,287,827	15,631	736,269	221,047	1,084,232	9,945
10. Florida	FL	NO							
11. Georgia	GA	NO							
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	NO							
19. Louisiana	LA	NO							
20. Maine	ME	NO							
21. Maryland	MD	YES	39,917,053	40,215,577	90,728	24,752,103	26,165,770	30,019,465	218,791
22. Massachusetts	MA	YES							
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							
31. New Jersey	NJ	NO							
32. New Mexico	NM	NO							
33. New York	NY	NO							
34. No. Carolina	NC	YES	11,918,487	11,632,870	6,740	5,573,034	10,645,210	11,339,022	65,203
35. No. Dakota	ND	NO							
36. Ohio	OH	NO					(100)		
37. Oklahoma	OK	NO							
38. Oregon	OR	NO							
39. Pennsylvania	PA	YES	(21,535)	(13,690)		514,631	409,005	91,895	
40. Rhode Island	RI	NO							
41. So. Carolina	SC	YES	2,785,780	2,094,846		407,076	1,272,922	1,263,272	15,269
42. So. Dakota	SD	NO							
43. Tennessee	TN	NO	(1,153)	1,172			(941)		
44. Texas	TX	NO							
45. Utah	UT	NO							
46. Vermont	VT	NO							
47. Virginia	VA	YES	10,975,939	11,403,466	40,330	4,497,109	18,414,347	20,363,355	60,161
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) 9		74,140,386	74,364,452	171,838	40,419,002	61,237,289	68,108,825	406,374

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								

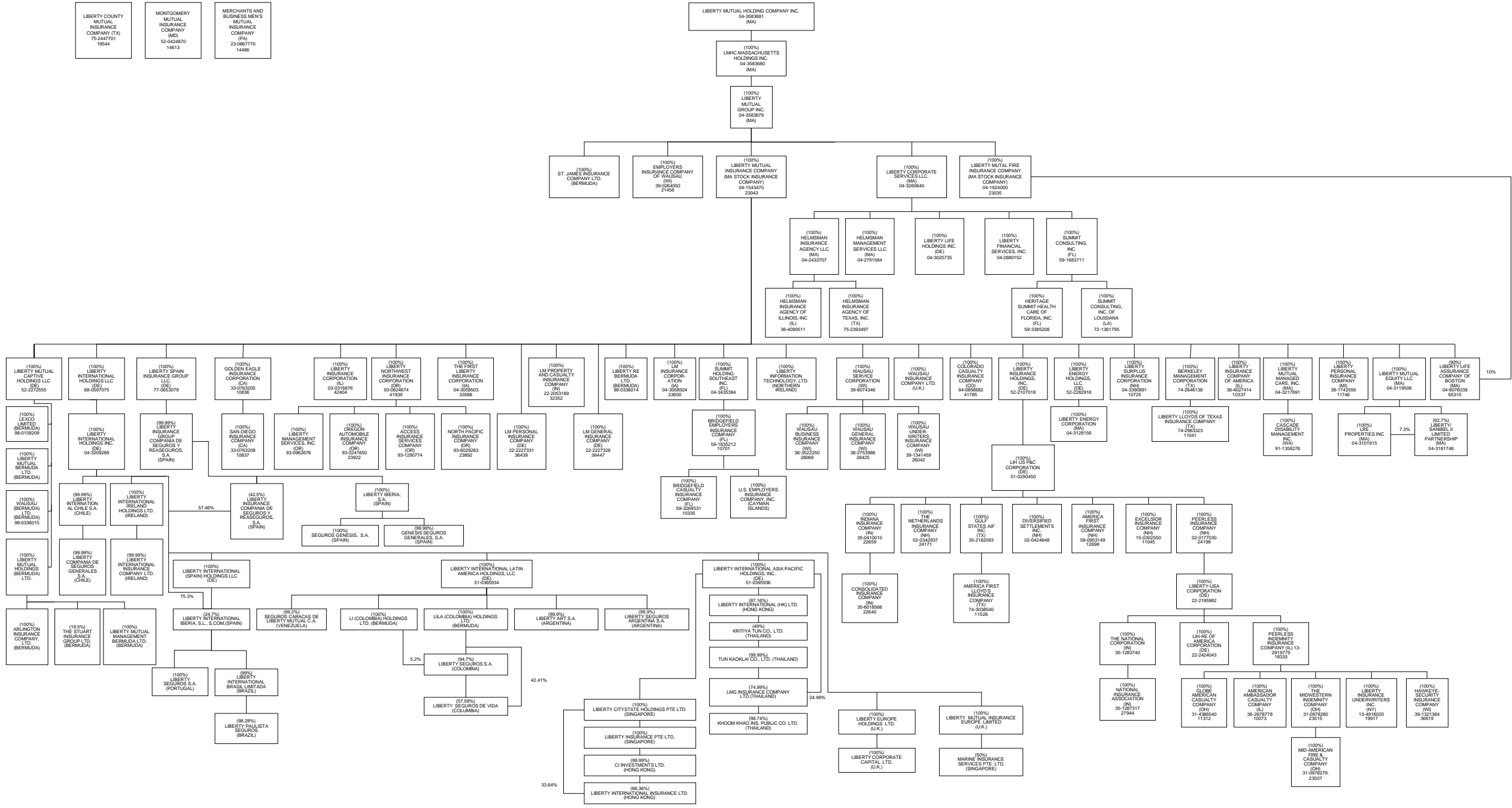
**Explanation of basis of allocation of premiums by states, etc.**

- \*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.

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

## PART 1 - ORGANIZATIONAL CHART





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**OVERFLOW PAGE FOR WRITE-INS**

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**OVERFLOW PAGE FOR WRITE-INS**

**Page 3 - Continuation  
LIABILITIES, SURPLUS AND OTHER FUNDS**

	1 Current Year	2 Prior Year
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**REMAINING WRITE-INS AGGREGATED AT LINE 23 FOR LIABILITIES**

2304. North Carolina Private Passenger Auto Escrow		5,367
2305. Amounts held under uninsured plans	(14,564)	4,343,582
2306.		
2307.		
2308.		
2309.		
2310.		
2311.		
2312.		
2313.		
2314.		
2315.		
2316.		
2317.		
2318.		
2319.		
2320.		
2321.		
2322.		
2323.		
2324.		
2325.		
2397. Totals (Lines 2304 through 2325) (Page 3, Line 2398)	(14,564)	4,348,949

**REMAINING WRITE-INS AGGREGATED AT LINE 27 FOR SPECIAL SURPLUS FUNDS**

2704.		
2705.		
2706.		
2707.		
2708.		
2709.		
2710.		
2711.		
2712.		
2713.		
2714.		
2715.		
2716.		
2717.		
2718.		
2719.		
2720.		
2721.		
2722.		
2723.		
2724.		
2725.		
2797. Totals (Lines 2704 through 2725) (Page 3, Line 2798)		

**REMAINING WRITE-INS AGGREGATED AT LINE 30 FOR OTHER THAN SPECIAL SURPLUS FUNDS**

3004.		
3005.		
3006.		
3007.		
3008.		
3009.		
3010.		
3011.		
3012.		
3013.		
3014.		
3015.		
3016.		
3017.		
3018.		
3019.		
3020.		
3021.		
3022.		
3023.		
3024.		
3025.		
3097. Totals (Lines 3004 through 3025) (Page 3, Line 3098)		