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PROPERTY AND CASUALTY COMPANIES - ASSOCIATION EDITION

ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2011

OF THE CONDITION AND AFFAIRS OF THE

ZURICH AMERICAN INSURANCE COMPANY

NAIC Group Code 0212 (Current) 0212 (Prior) NAIC Company Code 16535 Employer's ID Number 36-4233459

Organized under the Laws of New York, State of Domicile or Port of Entry New York

Country of Domicile United States of America

Incorporated/Organized 06/03/1998 Commenced Business 12/31/1998

Statutory Home Office One Liberty Plaza, 165 Broadway, 32nd Fl (Street and Number), New York , NY 10006 (City or Town, State and Zip Code)

Main Administrative Office 1400 American Lane (Street and Number)

Schaumburg , IL 60196-1056 (City or Town, State and Zip Code), 847-605-6000 (Area Code) (Telephone Number)

Mail Address 1400 American Lane, Tower I, 18th Floor (Street and Number or P.O. Box), Schaumburg , IL 60196-1056 (City or Town, State and Zip Code)

Primary Location of Books and Records 1400 American Lane (Street and Number)

Schaumburg , IL 60196-1056 (City or Town, State and Zip Code), 847-413-5048 (Area Code) (Telephone Number)

Internet Website Address WWW.ZURICHNA.COM

Statutory Statement Contact Colleen M. Zitt (Name), 847-413-5048 (Area Code) (Telephone Number)

colleen.zitt@zurichna.com (E-mail Address), 847-517-8585 (FAX Number)

OFFICERS

President	Nancy Diane Mueller	Secretary	Dennis Francis Kerrigan Jr.
Treasurer	Barry Sajowitz Paul		

OTHER

Michael Thomas Foley (CEO)	Earl Randall Clouser (EVP) #	Bob David Effinger Jr. (EVP)
Martin Feuer (EVP)	Craig Jay Fundum (EVP)	Steven Michael Hatch (EVP)
Michael Gerard Kerner (EVP)	Tina Gaye Mallie (EVP)	Mary Rose Merkel (EVP) #
John Clarence Parker (EVP)	Daniel Wayne Riordan (EVP)	Vibhu Ranjan Sharma (EVP)
Vincent Christopher Tizzio (EVP)		

DIRECTORS OR TRUSTEES

Michael Thomas Foley (Chairman) #	Earl Randall Clouser #	Craig Jay Fundum
Steven Michael Hatch #	Richard Patrick Kearns	Michael Gerard Kerner
Dennis Francis Kerrigan Jr. #	Mary Rose Merkel #	Nancy Diane Mueller
Daniel Wayne Riordan	Vibhu Ranjan Sharma	Angus Mark Talbot
Vincent Christopher Tizzio		

State of Illinois
County of Cook
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.

Nancy Diane Mueller President	Dennis Francis Kerrigan Secretary (EVP and Corporate Secretary)	Barry Sajowitz Paul Treasurer

Subscribed and sworn to before me this
15th day of February, 2012

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

ASSETS

		Current Year			Prior Year
		1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1.	Bonds (Schedule D)	18,985,096,131		18,985,096,131	18,919,367,229
2.	Stocks (Schedule D):				
	2.1 Preferred stocks	259,036		259,036	881,155
	2.2 Common stocks	2,076,769,919	7,888,000	2,068,881,919	2,164,868,224
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 $ .... encumbrances)				
	4.2 Properties held for the production of income (less $ .... encumbrances)				
	4.3 Properties held for sale (less $ .... encumbrances)				
5.	Cash ($ (163,119,931) , Schedule E - Part 1), cash equivalents ($ 34,403,304 , Schedule E - Part 2) and short-term investments ($ 107,298,374 , Schedule DA)	(21,418,253)		(21,418,253)	497,135,393
6.	Contract loans (including $ .... premium notes)				
7.	Derivatives (Schedule DB)				
8.	Other invested assets (Schedule BA)	2,065,634,039		2,065,634,039	2,064,283,585
9.	Receivable for securities	18,523,294		18,523,294	
10.	Securities lending reinvested collateral assets (Schedule DL)	120,821,061		120,821,061	355,288,472
11.	Aggregate write-ins for invested assets	124,809,033		124,809,033	123,641,791
12.	Subtotals, cash and invested assets (Lines 1 to 11)	23,370,494,260	7,888,000	23,362,606,260	24,125,465,848
13.	Title plants less $ .... charged off (for Title insurers only)				
14.	Investment income due and accrued	149,413,707	41,264	149,372,442	155,412,983
15.	Premiums and considerations:				
	15.1 Uncollected premiums and agents' balances in the course of collection	1,885,395,928	117,305,150	1,768,090,778	1,497,258,911
	15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ 67,112,107 earned but unbilled premiums)	1,487,219,015	25,292,032	1,461,926,983	1,413,421,508
	15.3 Accrued retrospective premiums	407,163,526	25,312,983	381,850,543	525,194,678
16.	Reinsurance:				
	16.1 Amounts recoverable from reinsurers	233,357,918		233,357,918	217,412,579
	16.2 Funds held by or deposited with reinsured companies	28,073,922		28,073,922	62,508,828
	16.3 Other amounts receivable under reinsurance contracts				
17.	Amounts receivable relating to uninsured plans				
18.1	Current federal and foreign income tax recoverable and interest thereon				
18.2	Net deferred tax asset	1,278,106,569	489,442,108	788,664,462	864,441,400
19.	Guaranty funds receivable or on deposit	20,711,054		20,711,054	22,988,507
20.	Electronic data processing equipment and software	180,366,235	180,098,356	267,879	464,853
21.	Furniture and equipment, including health care delivery assets ($ ....)	19,388,496	19,388,496		
22.	Net adjustment in assets and liabilities due to foreign exchange rates				
23.	Receivables from parent, subsidiaries and affiliates	97,601,773	2,018,757	95,583,016	84,104,105
24.	Health care ($ ....) and other amounts receivable				
25.	Aggregate write-ins for other than invested assets	667,690,942	229,030,863	438,660,079	451,714,245
26.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	29,824,983,344	1,095,818,009	28,729,165,335	29,420,388,445
27.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28.	Total (Lines 26 and 27)	29,824,983,344	1,095,818,009	28,729,165,335	29,420,388,445
	DETAILS OF WRITE-INS				
1101.	Employee Trust for Deferred Compensation Plan	124,809,033		124,809,033	123,641,791
1102.					
1103.					
1198.	Summary of remaining write-ins for Line 11 from overflow page				
1199.	Totals (Lines 1101 thru 1103 plus 1198)(Line 11 above)	124,809,033		124,809,033	123,641,791
2501.	Amounts Billed and Receivable under High Deductible Policies	264,253,352	17,313,751	246,939,602	256,277,602
2502.	Surcharges and Other Amounts Recoverable	181,225,017	2,459,895	178,765,122	176,008,520
2503.	Equities and Deposits	12,587,577		12,587,577	14,944,478
2598.	Summary of remaining write-ins for Line 25 from overflow page	209,624,995	209,257,217	367,778	4,483,644
2599.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	667,690,942	229,030,863	438,660,079	451,714,245

LIABILITIES, SURPLUS AND OTHER FUNDS

		1 Current Year	2 Prior Year
1.	Losses (Part 2A, Line 35, Column 8)	11,125,602,901	10,871,711,860
2.	Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	353,274,509	326,096,480
3.	Loss adjustment expenses (Part 2A, Line 35, Column 9)	3,276,029,269	3,431,814,966
4.	Commissions payable, contingent commissions and other similar charges	63,749,920	129,070,777
5.	Other expenses (excluding taxes, licenses and fees)	539,313,427	604,989,805
6.	Taxes, licenses and fees (excluding federal and foreign income taxes)	245,185,536	207,897,943
7.1	Current federal and foreign income taxes (including $ 2,879,587 on realized capital gains (losses))	47,352,138	53,201,046
7.2	Net deferred tax liability		
8.	Borrowed money $ and interest thereon $		
9.	Unearned premiums (Part 1A, Line 38, Column 5) (after deducting unearned premiums for ceded reinsurance of $ 335,993,948 and including warranty reserves of $ 185,104,444 and accrued accident and health experience rating refunds including $ for medical loss ratio rebate per the Public Health Service Act)	4,066,273,586	4,266,385,678
10.	Advance premium		
11.	Dividends declared and unpaid:		
	11.1 Stockholders		
	11.2 Policyholders	9,123,086	9,319,966
12.	Ceded reinsurance premiums payable (net of ceding commissions)	278,235,370	138,866,405
13.	Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	218,214,563	220,452,519
14.	Amounts withheld or retained by company for account of others	233,483,055	252,330,606
15.	Remittances and items not allocated	69,677,903	47,400,078
16.	Provision for reinsurance (Schedule F, Part 7)	60,498,188	64,548,922
17.	Net adjustments in assets and liabilities due to foreign exchange rates		
18.	Drafts outstanding		2,230,709
19.	Payable to parent, subsidiaries and affiliates	92,111,683	130,008,907
20.	Derivatives		
21.	Payable for securities		
22.	Payable for securities lending	120,821,061	356,743,459
23.	Liability for amounts held under uninsured plans		
24.	Capital notes $ and interest thereon $		
25.	Aggregate write-ins for liabilities	911,439,731	933,153,738
26.	Total liabilities excluding protected cell liabilities (Lines 1 through 25)	21,710,385,928	22,046,223,864
27.	Protected cell liabilities		
28.	Total liabilities (Lines 26 and 27)	21,710,385,928	22,046,223,864
29.	Aggregate write-ins for special surplus funds	396,438,437	417,942,097
30.	Common capital stock	5,000,000	5,000,000
31.	Preferred capital stock		
32.	Aggregate write-ins for other than special surplus funds		
33.	Surplus notes	883,000,000	1,533,000,000
34.	Gross paid in and contributed surplus	4,394,131,320	4,394,131,321
35.	Unassigned funds (surplus)	1,340,209,650	1,024,091,164
36.	Less treasury stock, at cost:		
	36.1 shares common (value included in Line 30 $)		
	36.2 shares preferred (value included in Line 31 $)		
37.	Surplus as regards policyholders (Lines 29 to 35, less 36) (Page 4, Line 39)	7,018,779,407	7,374,164,582
38.	TOTALS (Page 2, Line 28, Col. 3)	28,729,165,335	29,420,388,445
	DETAILS OF WRITE-INS		
2501.	Amounts Held Under High Deductible Policies	858,825,356	880,931,545
2502.	Deposit Accounting	28,842,967	24,631,418
2503.	Retroactive Reinsurance Reserve - Assumed	14,035,993	17,117,860
2598.	Summary of remaining write-ins for Line 25 from overflow page	9,735,415	10,472,915
2599.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	911,439,731	933,153,738
2901.	Net Deferred Tax Asset as provided for in SSAP 10R	340,894,437	321,550,097
2902.	Special Surplus from Retroactive Reinsurance	55,544,000	96,392,000
2903.			
2998.	Summary of remaining write-ins for Line 29 from overflow page		
2999.	Totals (Lines 2901 thru 2903 plus 2998)(Line 29 above)	396,438,437	417,942,097
3201.			
3202.			
3203.			
3298.	Summary of remaining write-ins for Line 32 from overflow page		
3299.	Totals (Lines 3201 thru 3203 plus 3298)(Line 32 above)		

STATEMENT OF INCOME

		1 Current Year	2 Prior Year
	UNDERWRITING INCOME		
1.	Premiums earned (Part 1, Line 35, Column 4)	4,342,399,668	4,298,492,725
	DEDUCTIONS:		
2.	Losses incurred (Part 2, Line 35, Column 7)	2,713,621,536	2,405,569,461
3.	Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	706,445,139	873,090,375
4.	Other underwriting expenses incurred (Part 3, Line 25, Column 2)	859,575,465	935,200,616
5.	Aggregate write-ins for underwriting deductions		
6.	Total underwriting deductions (Lines 2 through 5)	4,279,642,141	4,213,860,452
7.	Net income of protected cells		
8.	Net underwriting gain or (loss) (Line 1 minus Line 6 plus Line 7)	62,757,527	84,632,272
	INVESTMENT INCOME		
9.	Net investment income earned (Exhibit of Net Investment Income, Line 17)	854,638,339	889,280,679
10.	Net realized capital gains or (losses) less capital gains tax of $ 2,879,587 (Exhibit of Capital Gains (Losses))	102,135,412	468,595
11.	Net investment gain (loss) (Lines 9 + 10)	956,773,751	889,749,274
	OTHER INCOME		
12.	Net gain (loss) from agents' or premium balances charged off (amount recovered $ 8,396 amount charged off $ 4,738,233)	(4,729,837)	(44,615,035)
13.	Finance and service charges not included in premiums	5,908,621	6,217,141
14.	Aggregate write-ins for miscellaneous income	(59,960,265)	(83,040,697)
15.	Total other income (Lines 12 through 14)	(58,781,481)	(121,438,591)
16.	Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	960,749,797	852,942,955
17.	Dividends to policyholders	8,102,807	7,978,317
18.	Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	952,646,990	844,964,639
19.	Federal and foreign income taxes incurred	(7,794,669)	25,953,051
20.	Net income (Line 18 minus Line 19)(to Line 22)	960,441,660	819,011,588
	CAPITAL AND SURPLUS ACCOUNT		
21.	Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	7,374,164,582	7,417,150,618
22.	Net income (from Line 20)	960,441,660	819,011,588
23.	Net transfers (to) from Protected Cell accounts		
24.	Change in net unrealized capital gains or (losses) less capital gains tax of $ 21,917,330	55,372,352	178,060,395
25.	Change in net unrealized foreign exchange capital gain (loss)	(970,774)	(1,203,198)
26.	Change in net deferred income tax	(130,949,903)	(99,860,253)
27.	Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 28, Col. 3)	80,588,724	123,949,103
28.	Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	4,050,734	10,310,590
29.	Change in surplus notes	(650,000,000)	(350,000,000)
30.	Surplus (contributed to) withdrawn from protected cells		
31.	Cumulative effect of changes in accounting principles		
32.	Capital changes:		
	32.1 Paid in		
	32.2 Transferred from surplus (Stock Dividend)		
	32.3 Transferred to surplus		
33.	Surplus adjustments:		
	33.1 Paid in		
	33.2 Transferred to capital (Stock Dividend)		
	33.3 Transferred from capital		
34.	Net remittances from or (to) Home Office		
35.	Dividends to stockholders	(740,000,000)	(700,000,000)
36.	Change in treasury stock (Page 3, Lines 36.1 and 36.2, Column 2 minus Column 1)		
37.	Aggregate write-ins for gains and losses in surplus	66,082,033	(23,254,260)
38.	Change in surplus as regards policyholders for the year (Lines 22 through 37)	(355,385,174)	(42,986,036)
39.	Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 37)	7,018,779,407	7,374,164,582
	DETAILS OF WRITE-INS		
0501.			
0502.			
0503.			
0598.	Summary of remaining write-ins for Line 5 from overflow page		
0599.	Totals (Lines 0501 thru 0503 plus 0598)(Line 5 above)		
1401.	Interest on Reinsurance Contracts	1,969,337	4,019,050
1402.	Restructuring	(2,192,746)	(5,206,191)
1403.	Other Miscellaneous expenses	(59,736,855)	(81,853,556)
1498.	Summary of remaining write-ins for Line 14 from overflow page		
1499.	Totals (Lines 1401 thru 1403 plus 1498)(Line 14 above)	(59,960,265)	(83,040,697)
3701.	Additional Mininum Pension Liability	46,737,693	4,010,345
3702.	Change in deferred income tax - SSAP10R	19,344,340	(27,264,605)
3703.			
3798.	Summary of remaining write-ins for Line 37 from overflow page		
3799.	Totals (Lines 3701 thru 3703 plus 3798)(Line 37 above)	66,082,033	(23,254,260)

CASH FLOW

		1 Current Year	2 Prior Year
	Cash from Operations		
1.	Premiums collected net of reinsurance	4,126,564,083	4,715,661,481
2.	Net investment income	920,366,825	950,865,352
3.	Miscellaneous income	(24,346,575)	(166,403,954)
4.	Total (Lines 1 through 3)	5,022,584,333	5,500,122,878
5.	Benefit and loss related payments	2,436,859,535	2,459,527,546
6.	Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		
7.	Commissions, expenses paid and aggregate write-ins for deductions	1,808,978,704	1,815,908,826
8.	Dividends paid to policyholders	8,299,687	7,267,714
9.	Federal and foreign income taxes paid (recovered) net of $ tax on capital gains (losses)	933,826	(1,560,605)
10.	Total (Lines 5 through 9)	4,255,071,752	4,281,143,481
11.	Net cash from operations (Line 4 minus Line 10)	767,512,581	1,218,979,398
	Cash from Investments		
12.	Proceeds from investments sold, matured or repaid:		
	12.1 Bonds	11,931,350,691	9,906,783,750
	12.2 Stocks	290,547,676	642,522,139
	12.3 Mortgage loans		
	12.4 Real estate		
	12.5 Other invested assets	1,093,015,818	39,261,873
	12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(16,202)	7,962
	12.7 Miscellaneous proceeds	12,128,390	9,209,984
	12.8 Total investment proceeds (Lines 12.1 to 12.7)	13,327,026,373	10,597,785,708
13.	Cost of investments acquired (long-term only):		
	13.1 Bonds	11,918,293,860	9,909,359,368
	13.2 Stocks	209,446,012	304,162,231
	13.3 Mortgage loans		
	13.4 Real estate		
	13.5 Other invested assets	1,039,784,440	89,053,819
	13.6 Miscellaneous applications	31,347,845	27,439,257
	13.7 Total investments acquired (Lines 13.1 to 13.6)	13,198,872,157	10,330,014,674
14.	Net increase (decrease) in contract loans and premium notes		
15.	Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	128,154,216	267,771,034
	Cash from Financing and Miscellaneous Sources		
16.	Cash provided (applied):		
	16.1 Surplus notes, capital notes	(650,000,000)	(350,000,000)
	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	740,000,000	700,000,000
	16.6 Other cash provided (applied)	(24,220,444)	(462,873,831)
17.	Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(1,414,220,444)	(1,512,873,831)
	RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18.	Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	(518,553,646)	(26,123,400)
19.	Cash, cash equivalents and short-term investments:		
	19.1 Beginning of year	497,135,393	523,258,793
	19.2 End of period (Line 18 plus Line 19.1)	(21,418,253)	497,135,393

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

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	184,790,117	132,837,611	177,228,901	140,398,827
2.	Allied lines	451,783,711	138,132,062	139,325,877	450,589,896
3.	Farmowners multiple peril				
4.	Homeowners multiple peril	14,797,506	10,746,819	13,222,356	12,321,969
5.	Commercial multiple peril	318,901,552	271,597,854	293,314,324	297,185,082
6.	Mortgage guaranty				
8.	Ocean marine	25,305,971	20,208,998	22,653,394	22,861,575
9.	Inland marine	142,699,357	157,119,510	175,459,609	124,359,258
10.	Financial guaranty				
11.1	Medical professional liability - occurrence	(966,368)	4,869,479	2,177,047	1,726,064
11.2	Medical professional liability - claims-made	72,509,890	79,369,970	72,859,035	79,020,825
12.	Earthquake	66,064,721	67,141,169	69,219,192	63,986,698
13.	Group accident and health	185,946,196	(1,412,336)	(5,705,794)	190,239,653
14.	Credit accident and health (group and individual)	(317,932)	648,354	117,896	212,526
15.	Other accident and health				
16.	Workers' compensation	852,837,006	683,314,905	585,044,987	951,106,924
17.1	Other liability - occurrence	630,480,465	675,134,443	651,209,553	654,405,356
17.2	Other liability - claims-made	300,322,810	557,590,245	477,728,321	380,184,734
17.3	Excess workers' compensation	18,305,156	18,387,430	17,703,243	18,989,342
18.1	Products liability - occurrence	33,712,362	73,037,504	57,462,604	49,287,261
18.2	Products liability - claims-made	2,256,003	2,318,045	2,293,626	2,280,421
19.1, 19.2	Private passenger auto liability	(1,783)	(1,215)	(1,861)	(1,136)
19.3, 19.4	Commercial auto liability	332,340,009	328,079,137	304,919,986	355,499,160
21.	Auto physical damage	94,721,581	81,979,726	80,673,151	96,028,155
22.	Aircraft (all perils)	8,277,455	2,117,410	3,822,742	6,572,123
23.	Fidelity	35,150,218	54,565,604	49,565,040	40,150,782
24.	Surety	277,536,822	416,657,889	429,279,289	264,915,422
26.	Burglary and theft	7,941,433	7,286,708	8,126,837	7,101,304
27.	Boiler and machinery	47,575,189	44,322,496	43,225,026	48,672,659
28.	Credit	10,558,020	42,664,063	27,681,258	25,540,826
29.	International				
30.	Warranty	35,781,300	200,959,525	185,104,444	51,636,380
31.	Reinsurance - nonproportional assumed property				
32.	Reinsurance - nonproportional assumed liability				
33.	Reinsurance - nonproportional assumed financial lines				
34.	Aggregate write-ins for other lines of business	6,443,574	636,592	(47,416)	7,127,582
35.	TOTALS	4,155,752,341	4,070,309,997	3,883,662,670	4,342,399,668
	DETAILS OF WRITE-INS				
3401.	Other Miscellaneous Casualty	6,443,574	636,592	(47,416)	7,127,582
3402.					
3403.					
3498.	Summary of remaining write-ins for Line 34 from overflow page				
3499.	Totals (Lines 3401 thru 3403 plus 3498)(Line 34 above)	6,443,574	636,592	(47,416)	7,127,582

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1A - RECAPITULATION OF ALL PREMIUMS

	Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (a)	2 Amount Unearned (Running More Than One Year from Date of Policy) (a)	3 Earned But Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1.	Fire	155,829,829	23,483,495	(2,084,423)		177,228,901
2.	Allied lines	134,778,296	6,648,259	(2,100,677)		139,325,877
3.	Farmowners multiple peril					
4.	Homeowners multiple peril	8,874,953	4,347,403			13,222,356
5.	Commercial multiple peril	240,937,619	57,450,510	(5,073,805)		293,314,324
6.	Mortgage guaranty					
8.	Ocean marine	19,241,652	3,411,742			22,653,394
9.	Inland marine	79,269,485	101,552,742	(5,362,618)		175,459,609
10.	Financial guaranty					
11.1	Medical professional liability - occurrence	2,330,893	(173,056)	19,211		2,177,047
11.2	Medical professional liability - claims-made	71,201,686	1,775,648	(118,300)		72,859,035
12.	Earthquake	67,758,789	1,464,647	(4,243)		69,219,192
13.	Group accident and health	4,405,415	3,371,913	(11,887,015)	(1,596,107)	(5,705,794)
14.	Credit accident and health (group and individual)	117,896				117,896
15.	Other accident and health					
16.	Workers' compensation	704,569,130	21,880,503	(24,307,632)	(117,097,014)	585,044,987
17.1	Other liability - occurrence	433,216,497	199,766,752	10,386,447	7,839,857	651,209,553
17.2	Other liability - claims-made	282,098,364	201,466,888	(5,836,930)		477,728,321
17.3	Excess workers' compensation	15,371,143	1,893,292	438,809		17,703,243
18.1	Products liability - occurrence	42,174,411	13,634,834	1,796,737	(143,378)	57,462,604
18.2	Products liability - claims-made	2,084,263	240,415	(31,072)	21	2,293,626
19.1, 19.2	Private passenger auto liability	(1,861)				(1,861)
19.3, 19.4	Commercial auto liability	290,122,913	10,647,868	8,348,507	(4,199,302)	304,919,986
21.	Auto physical damage	79,784,914	1,191,124		(302,886)	80,673,151
22.	Aircraft (all perils)		3,822,742			3,822,742
23.	Fidelity	25,205,342	24,359,698			49,565,040
24.	Surety	120,443,867	344,395,620	(35,560,198)		429,279,289
26.	Burglary and theft	5,965,218	2,161,619			8,126,837
27.	Boiler and machinery	30,898,955	12,326,071			43,225,026
28.	Credit	(10,612,898)	38,520,421	(226,265)		27,681,258
29.	International					
30.	Warranty	4,323,208	176,242,461	4,538,776		185,104,444
31.	Reinsurance - nonproportional assumed property					
32.	Reinsurance - nonproportional assumed liability					
33.	Reinsurance - nonproportional assumed financial lines					
34.	Aggregate write-ins for other lines of business			(47,416)		(47,416)
35.	TOTALS	2,810,389,979	1,255,883,607	(67,112,107)	(115,498,809)	3,883,662,670
36.	Accrued retrospective premiums based on experience					115,498,809
37.	Earned but unbilled premiums					67,112,107
38.	Balance (Sum of Line 35 through 37)					4,066,273,586
	DETAILS OF WRITE-INS					
3401.	Other Miscellaneous Casualty			(47,416)		(47,416)
3402.						
3403.						
3498.	Summary of remaining write-ins for Line 34 from overflow page					
3499.	Totals (Lines 3401 thru 3403 plus 3498)(Line 34 above)			(47,416)		(47,416)

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B - PREMIUMS WRITTEN

		1	Reinsurance Assumed		Reinsurance Ceded		6
			2	3	4	5	Net Premiums Written
	Line of Business	Direct Business (a)	From Affiliates	From Non-Affiliates	To Affiliates	To Non-Affiliates	Cols. 1+2+3-4-5
1.	Fire	206,591,804	223,328,274	51,969,657	180,341,841	116,757,776	184,790,117
2.	Allied lines	196,931,408	817,654,070	7,429,343	488,099,846	82,131,263	451,783,711
3.	Farmowners multiple peril						
4.	Homeowners multiple peril		22,330,770	4,788,706	12,321,969		14,797,506
5.	Commercial multiple peril	337,031,060	247,225,547	90,540,324	317,695,769	38,199,611	318,901,552
6.	Mortgage guaranty						
8.	Ocean marine	69,200,144	2,598,072	632,142	34,940,844	12,183,544	25,305,971
9.	Inland marine	181,316,755	173,811,239	2,822,148	159,196,464	56,054,322	142,699,357
10.	Financial guaranty						
11.1	Medical professional liability - occurrence	6,266,406	3,912,363	683,347	11,828,484		(966,368)
11.2	Medical professional liability - claims-made	15,682,852	84,300,619	41,594,822	68,918,404	149,999	72,509,890
12.	Earthquake	67,582,557	103,106,544	578	76,040,772	28,584,186	66,064,721
13.	Group accident and health	299,649,306	634,688	106,105,301	190,601,488	29,841,612	185,946,196
14.	Credit accident and health (group and individual)		(105,406)		212,526		(317,932)
15.	Other accident and health						
16.	Workers' compensation	1,207,580,270	792,038,884	13,957,633	876,884,413	283,855,367	852,837,006
17.1	Other liability - occurrence	687,433,814	774,250,516	1,281,269	707,344,847	125,140,287	630,480,465
17.2	Other liability - claims-made	420,348,616	292,414,662	1,336,135	408,246,254	5,530,350	300,322,810
17.3	Excess workers' compensation	39,424,977	(3,732,227)		17,402,252	(14,658)	18,305,156
18.1	Products liability - occurrence	50,429,719	55,771,438	1,433,506	67,584,732	6,337,571	33,712,362
18.2	Products liability - claims-made	7,096,694	4,159,297	5,307	8,466,489	538,806	2,256,003
19.1, 19.2	Private passenger auto liability	(13)	(2,906)		(1,136)		(1,783)
19.3, 19.4	Commercial auto liability	473,227,742	296,067,500	5,298,612	364,658,405	77,595,440	332,340,009
21.	Auto physical damage	79,431,446	126,912,329	805,654	96,998,319	15,429,530	94,721,581
22.	Aircraft (all perils)			14,836,192	6,572,123	(13,386)	8,277,455
23.	Fidelity	25,172,536	51,055,976		40,189,853	888,440	35,150,218
24.	Surety	4,190,403	538,261,840		264,915,422		277,536,822
26.	Burglary and theft	6,911,069	9,151,642	6,061	7,556,327	571,012	7,941,433
27.	Boiler and machinery	51,172,647	28,039,769	27,192,910	53,505,251	5,324,886	47,575,189
28.	Credit	18,647,101	28,444,605	(570,158)	25,540,826	10,422,702	10,558,020
29.	International						
30.	Warranty		88,071,757	(655,064)	51,635,393		35,781,300
31.	Reinsurance - nonproportional assumed property	XXX					
32.	Reinsurance - nonproportional assumed liability	XXX					
33.	Reinsurance - nonproportional assumed financial lines	XXX					
34.	Aggregate write-ins for other lines of business	112,562	13,458,594		7,127,582		6,443,574
35.	TOTALS	4,451,431,877	4,773,160,460	371,494,425	4,544,825,760	895,508,660	4,155,752,341
	DETAILS OF WRITE-INS						
3401.	Other Miscellaneous Casualty	112,562	13,458,594		7,127,582		6,443,574
3402.							
3403.							
3498.	Summary of remaining write-ins for Line 34 from overflow page						
3499.	Totals (Lines 3401 thru 3403 plus 3498)(Line 34 above)	112,562	13,458,594		7,127,582		6,443,574

(a) Does the company's direct premiums written include premiums recorded on an installment basis? Yes [ ] No [X]

If yes: 1. The amount of such installment premiums $ ....

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - LOSSES PAID AND INCURRED

	Line of Business	Losses Paid Less Salvage 1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 -3)	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.	Fire	47,541,877	74,459,550	64,436,888	57,564,539	69,661,047	60,691,782	66,533,804	47.4
2.	Allied lines	153,507,011	434,814,323	318,456,205	269,865,128	446,017,797	293,367,319	422,515,607	93.8
3.	Farmowners multiple peril								
4.	Homeowners multiple peril	(46,200)	17,738,447	9,538,594	8,153,653	3,293,280	6,988,611	4,458,322	36.2
5.	Commercial multiple peril	157,068,020	225,455,131	179,460,157	203,062,995	420,959,850	410,616,065	213,406,780	71.8
6.	Mortgage guaranty								
8.	Ocean marine	30,873,965	2,300,881	20,604,044	12,570,802	23,061,790	23,859,479	11,773,113	51.5
9.	Inland marine	82,236,185	90,272,694	108,155,035	64,353,844	112,194,170	76,067,112	100,480,902	80.8
10.	Financial guaranty								
11.1	Medical professional liability - occurrence	2,042,105	7,073	1,093,600	955,577	8,292,945	10,689,821	(1,441,299)	(83.5)
11.2	Medical professional liability - claims-made	22,833,134	58,530,266	39,109,552	42,253,848	187,112,400	242,565,902	(13,199,654)	(16.7)
12.	Earthquake	1,712,284	2,926,578	9,154,679	(4,515,818)	(2,094,950)	1,985,139	(8,595,907)	(13.4)
13.	Group accident and health	199,916,025	56,529,551	132,912,640	123,532,936	77,177,283	76,279,875	124,430,343	65.4
14.	Credit accident and health (group and individual)		765,599	382,800	382,800	119,513	432,408	69,904	32.9
15.	Other accident and health					4	4		
16.	Workers' compensation	785,330,740	377,775,294	634,933,773	528,172,261	4,308,882,113	4,107,314,292	729,740,082	76.7
17.1	Other liability - occurrence	402,086,249	586,481,757	499,881,197	488,686,808	2,887,915,121	2,913,669,899	462,932,030	70.7
17.2	Other liability - claims-made	350,432,918	164,434,953	285,239,376	229,628,495	1,095,153,485	1,082,980,684	241,801,296	63.6
17.3	Excess workers' compensation	9,079,962	525,449	3,358,848	6,246,563	151,254,165	136,755,353	20,745,375	109.2
18.1	Products liability - occurrence	93,565,495	80,811,590	210,111,325	(35,734,240)	539,753,549	522,248,154	(18,228,845)	(37.0)
18.2	Products liability - claims-made	1,591,592	4,950,584	3,613,182	2,928,994	21,326,137	24,612,735	(357,604)	(15.7)
19.1, 19.2	Private passenger auto liability	5,330,545	5,155,844	4,482,982	6,003,408	2,469,774	4,277,273	4,195,910	(369,277.0)
19.3, 19.4	Commercial auto liability	251,331,618	295,359,439	293,886,249	252,804,809	551,253,452	620,281,348	183,776,913	51.7
21.	Auto physical damage	59,616,487	97,917,650	84,955,489	72,578,649	5,684,981	12,097,222	66,166,409	68.9
22.	Aircraft (all perils)	(380,933)	4,595,992	2,068,779	2,146,279	3,177,838	7,670,976	(2,346,859)	(35.7)
23.	Fidelity	16,698,382	22,074,302	19,585,486	19,187,199	29,676,161	37,238,891	11,624,469	29.0
24.	Surety	748,083	79,873,325	39,957,994	40,663,413	75,870,042	86,261,454	30,272,001	11.4
26.	Burglary and theft	396,924	2,359,830	1,438,758	1,317,997	407,184	566,406	1,158,775	16.3
27.	Boiler and machinery	26,861,947	10,422,576	18,749,581	18,534,942	26,844,684	20,160,095	25,219,531	51.8
28.	Credit	(3,451,679)	9,928,451	2,099,332	4,377,440	16,041,703	23,460,520	(3,041,376)	(11.9)
29.	International								
30.	Warranty		76,267,940	37,258,584	39,009,356	33,564,379	34,043,286	38,530,449	74.6
31.	Reinsurance - nonproportional assumed property	XXX							
32.	Reinsurance - nonproportional assumed liability	XXX							
33.	Reinsurance - nonproportional assumed financial lines	XXX							
34.	Aggregate write-ins for other lines of business	11,045	9,984,592	4,997,818	4,997,818	30,533,009	34,529,757	1,001,070	14.0
35.	TOTALS	2,696,933,781	2,792,719,659	3,029,922,945	2,459,730,494	11,125,602,906	10,871,711,860	2,713,621,541	62.5
	DETAILS OF WRITE-INS								
3401.	Other Miscellaneous Casualty	11,045	9,984,592	4,997,818	4,997,818	30,533,009	34,529,757	1,001,070	14.0
3402.									
3403.									
3498.	Summary of remaining write-ins for Line 34 from overflow page								
3499.	Totals (Lines 3401 thru 3403 plus 3498)(Line 34 above)	11,045	9,984,592	4,997,818	4,997,818	30,533,009	34,529,757	1,001,070	14.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

		Reported Losses				Incurred But Not Reported			8	9
	Line of Business	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	Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	Net Unpaid Loss Adjustment Expenses
1.	Fire	55,424,921	95,215,042	83,820,359	66,819,604	30,229,586	(4,788,646)	22,599,497	69,661,047	2,242,913
2.	Allied lines	214,070,327	96,993,367	205,176,987	105,886,707	37,974,475	660,704,499	358,547,884	446,017,797	15,343,310
3.	Farmowners multiple peril									3,368
4.	Homeowners multiple peril		3,745,444	4,278,190	(532,745)	4,440	6,729,862	2,908,277	3,293,280	640,320
5.	Commercial multiple peril	127,213,017	267,490,074	225,622,069	169,081,022	142,017,675	281,019,608	171,158,456	420,959,850	450,907,615
6.	Mortgage guaranty									
8.	Ocean marine	47,956,195	1,959,618	32,891,610	17,024,203	10,029,300	3,350,636	7,342,349	23,061,790	2,354,771
9.	Inland marine	115,356,797	107,548,743	141,246,152	81,659,389	(35,058,773)	24,123,969	(41,469,584)	112,194,170	5,748,773
10.	Financial guaranty									
11.1	Medical professional liability - occurrence	8,643,405	1,295,274	2,877,766	7,060,913	26,178,828	(19,432,983)	5,513,813	8,292,945	1,221,288
11.2	Medical professional liability - claims-made	46,283,300	52,837,988	51,098,416	48,022,872	23,174,542	291,929,488	176,014,502	187,112,400	32,625,373
12.	Earthquake	2,009,466	2,403,127	6,462,116	(2,049,524)	166,584	(71,455)	140,556	(2,094,950)	(356,018)
13.	Group accident and health	58,037,672	3,506,959	30,717,019	30,827,612	82,305,352	18,800,969	54,756,651	(a) 77,177,283	4,662,270
14.	Credit accident and health (group and individual)		229,046	114,523	114,523		9,979	4,990	119,513	
15.	Other accident and health		4		4				(a) 4	582,603
16.	Workers' compensation	2,080,572,390	1,299,207,794	1,329,026,020	2,050,754,163	2,928,990,271	1,770,496,145	2,441,358,466	4,308,882,113	777,476,853
17.1	Other liability - occurrence	601,767,125	812,086,724	494,884,102	918,969,747	1,422,326,706	2,322,879,169	1,776,260,501	2,887,915,121	1,126,781,401
17.2	Other liability - claims-made	561,191,211	284,214,493	497,687,579	347,718,125	954,246,507	645,515,256	852,326,403	1,095,153,485	296,993,323
17.3	Excess workers' compensation	74,123,155	4,174,407	26,805,198	51,492,363	173,220,773	6,395,849	79,854,820	151,254,165	24,135,626
18.1	Products liability - occurrence	229,733,581	210,184,225	150,430,990	289,486,816	173,342,011	275,968,007	199,043,285	539,753,549	366,458,422
18.2	Products liability - claims-made	12,551,903	7,332,342	18,112,886	1,771,359	40,351,378	11,321,921	32,118,521	21,326,137	6,507,808
19.1, 19.2	Private passenger auto liability	1,225	632,390	3,611	630,004	62,036	1,782,418	4,684	2,469,774	170,538
19.3, 19.4	Commercial auto liability	250,188,910	308,558,780	274,663,456	284,084,233	331,259,402	249,817,684	313,907,867	551,253,452	117,707,176
21.	Auto physical damage	6,351,607	4,458,067	7,779,141	3,030,533	3,785,369	2,016,577	3,147,498	5,684,981	1,426,984
22.	Aircraft (all perils)	55,093,666	11,188,612	63,706,390	2,575,888	1,610,532	180,698	1,189,280	3,177,838	
23.	Fidelity	8,279,871	28,684,723	16,819,518	20,145,076	6,228,450	14,784,431	11,481,796	29,676,161	4,312,283
24.	Surety	53,505	54,831,221	26,408,551	28,476,175	1,117,834	88,399,310	42,123,277	75,870,042	23,356,680
26.	Burglary and theft	339,201	177,495	256,517	260,179	4,072,534	282,547	4,208,076	407,184	249,247
27.	Boiler and machinery	28,730,398	3,279,131	16,330,468	15,679,060	7,763,860	16,482,380	13,080,616	26,844,684	1,601,068
28.	Credit	16	2,857,813	1,363,478	1,494,352	(5,514,550)	42,748,630	22,686,729	16,041,703	4,113,037
29.	International									
30.	Warranty		2,765,810	1,241,937	1,523,873		57,604,569	25,564,063	33,564,379	2,426,225
31.	Reinsurance - nonproportional assumed property	XXX				XXX				
32.	Reinsurance - nonproportional assumed liability	XXX				XXX				
33.	Reinsurance - nonproportional assumed financial lines	XXX				XXX				
34.	Aggregate write-ins for other lines of business					9,952,268	51,113,749	30,533,009	30,533,009	6,336,014
35.	TOTALS	4,583,972,864	3,667,858,712	3,709,825,049	4,542,006,526	6,369,837,391	6,820,165,270	6,606,406,280	11,125,602,906	3,276,029,269
	DETAILS OF WRITE-INS									
3401.	Other Miscellaneous Casualty					9,952,268	51,113,749	30,533,009	30,533,009	6,336,014
3402.										
3403.										
3498.	Summary of remaining write-ins for Line 34 from overflow page									
3499.	Totals (Lines 3401 thru 3403 plus 3498)(Line 34 above)					9,952,268	51,113,749	30,533,009	30,533,009	6,336,014

(a) Including $ .... 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	494,883,565			494,883,565
1.2 Reinsurance assumed	215,287,601			215,287,601
1.3 Reinsurance ceded	406,273,029			406,273,029
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	303,898,137			303,898,137
2. Commission and brokerage:				
2.1 Direct excluding contingent		382,377,180		382,377,180
2.2 Reinsurance assumed, excluding contingent		507,539,398		507,539,398
2.3 Reinsurance ceded, excluding contingent		1,340,357,282		1,340,357,282
2.4 Contingent - direct		31,222,412		31,222,412
2.5 Contingent - reinsurance assumed		(4,233,804)		(4,233,804)
2.6 Contingent - reinsurance ceded				
2.7 Policy and membership fees				
2.8 Net commission and brokerage (2.1 + 2.2 - 2.3 + 2.4 + 2.5 - 2.6 + 2.7)		(423,452,096)		(423,452,096)
3. Allowances to managers and agents		6,011,933		6,011,933
4. Advertising		14,788,736		14,788,736
5. Boards, bureaus and associations		29,984,778		29,984,778
6. Surveys and underwriting reports		109,657,561		109,657,561
7. Audit of assureds' records		20,350,302		20,350,302
8. Salary and related items:				
8.1 Salaries	269,775,730	504,953,053		774,728,783
8.2 Payroll taxes	18,660,527	33,639,956		52,300,483
9. Employee relations and welfare	54,245,682	101,493,987	118,175	155,857,843
10. Insurance	4,356,917	14,032,354		18,389,271
11. Directors' fees		369		369
12. Travel and travel items	13,429,146	36,287,481		49,716,627
13. Rent and rent items	30,376,512	98,119,570		128,496,081
14. Equipment	65,869,493	207,564,574		273,434,066
15. Cost or depreciation of EDP equipment and software	1,087,700	47,003,321		48,091,021
16. Printing and stationery	2,631,484	5,626,063		8,257,547
17. Postage, telephone and telegraph, exchange and express	11,498,514	37,221,530	21,797,413	70,517,458
18. Legal and auditing	3,355,077	18,356,708	18,575	21,730,360
19. Totals (Lines 3 to 18)	475,286,782	1,285,092,276	21,934,163	1,782,313,220
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of $		269,709,903		269,709,903
20.2 Insurance department licenses and fees		51,794,384		51,794,384
20.3 Gross guaranty association assessments		(1,550,564)		(1,550,564)
20.4 All other (excluding federal and foreign income and real estate)		5,282,769		5,282,769
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		325,236,491		325,236,491
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured plans				
24. Aggregate write-ins for miscellaneous expenses	(72,739,780)	(327,301,205)	435,080	(399,605,905)
25. Total expenses incurred	706,445,139	859,575,465	22,369,243	(a) 1,588,389,848
26. Less unpaid expenses - current year	3,276,029,269	843,114,437	5,134,446	4,124,278,153
27. Add unpaid expenses - prior year	3,431,814,966	932,564,292	9,394,232	4,373,773,491
28. Amounts receivable relating to uninsured plans, prior year				
29. Amounts receivable relating to uninsured plans, current year				
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	862,230,836	949,025,321	26,629,029	1,837,885,186
DETAILS OF WRITE-INS				
2401. Donations	577,840	1,677,273		2,255,113
2402. Outside Data Processing	10,509,234	27,256,065	441,049	38,206,348
2403. All Others	(83,826,854)	(356,234,543)	(5,969)	(440,067,367)
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 thru 2403 plus 2498)(Line 24 above)	(72,739,780)	(327,301,205)	435,080	(399,605,905)

(a) Includes management fees of $ .... to affiliates and $ .... to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. Government bonds	(a) 74,536,693	79,146,185
1.1	Bonds exempt from U.S. tax	(a) 484,424	3,323,116
1.2	Other bonds (unaffiliated)	(a) 712,060,402	698,511,711
1.3	Bonds of affiliates	(a)	
2.1	Preferred stocks (unaffiliated)	(b)	
2.11	Preferred stocks of affiliates	(b)	
2.2	Common stocks (unaffiliated)	17,994,632	17,994,632
2.21	Common stocks of affiliates	63,300,000	63,300,000
3.	Mortgage loans	(c)	
4.	Real estate	(d)	
5	Contract loans		
6	Cash, cash equivalents and short-term investments	(e) 599,954	488,932
7	Derivative instruments	(f)	
8.	Other invested assets	95,869,739	95,869,739
9.	Aggregate write-ins for investment income	5,120,767	5,120,767
10.	Total gross investment income	969,966,611	963,755,082
11.	Investment expenses		(g) 22,369,243
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g)
13.	Interest expense		(h) 86,747,500
14.	Depreciation on real estate and other invested assets		(i)
15.	Aggregate write-ins for deductions from investment income		
16.	Total deductions (Lines 11 through 15)		109,116,743
17.	Net investment income (Line 10 minus Line 16)		854,638,339
	DETAILS OF WRITE-INS		
0901.	Employee Trust Deferred Compensation Plan	4,615,185	4,615,185
0902.	Securities Lending Income	505,582	505,582
0903.			
0998.	Summary of remaining write-ins for Line 9 from overflow page		
0999.	Totals (Lines 0901 thru 0903 plus 0998) (Line 9, above)	5,120,767	5,120,767
1501.			
1502.			
1503.			
1598.	Summary of remaining write-ins for Line 15 from overflow page		
1599.	Totals (Lines 1501 thru 1503 plus 1598) (Line 15, above)		

(a) Includes $ 14,351,388 accrual of discount less $ 78,106,365 amortization of premium and less $ 28,773,280 paid for accrued interest on purchases.

(b) Includes $ .... accrual of discount less $ .... amortization of premium and less $ .... paid for accrued dividends on purchases.

(c) Includes $ .... accrual of discount less $ .... amortization of premium and less $ .... paid for accrued interest on purchases.

(d) Includes $ .... for company's occupancy of its own buildings; and excludes $ .... interest on encumbrances.

(e) Includes $ 163,823 accrual of discount less $ 863,887 amortization of premium and less $ 551,928 paid for accrued interest on purchases.

(f) Includes $ .... accrual of discount less $ .... amortization of premium.

(g) Includes $ .... investment expenses and $ .... investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.

(h) Includes $ 86,747,500 interest on surplus notes and $ .... interest on capital notes.

(i) Includes $ .... depreciation on real estate and $ .... depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1.	U.S. Government bonds	34,272,451		34,272,451		
1.1	Bonds exempt from U.S. tax	93,243		93,243		
1.2	Other bonds (unaffiliated)	110,848,743	(36,071,998)	74,776,745	33,398,276	
1.3	Bonds of affiliates					
2.1	Preferred stocks (unaffiliated)	2,183,316		2,183,316		
2.11	Preferred stocks of affiliates					
2.2	Common stocks (unaffiliated)	16,938,852	(2,892,339)	14,046,513	(46,405,322)	
2.21	Common stocks of affiliates				14,668,738	
3.	Mortgage loans					
4.	Real estate					
5.	Contract loans					
6.	Cash, cash equivalents and short-term investments	(16,202)		(16,202)		
7.	Derivative instruments					
8.	Other invested assets	29,190,313	(50,153,706)	(20,963,394)	75,545,227	
9.	Aggregate write-ins for capital gains (losses)	651,723	(29,384)	622,339	82,772	
10.	Total capital gains (losses)	194,162,439	(89,147,427)	105,015,012	77,289,691	
	DETAILS OF WRITE-INS					
0901.	Employee Trust Deferred Compensation Plan	651,723	(29,384)	622,339	82,772	
0902.						
0903.						
0998.	Summary of remaining write-ins for Line 9 from overflow page					
0999.	Totals (Lines 0901 thru 0903 plus 0998) (Line 9, above)	651,723	(29,384)	622,339	82,772	

EXHIBIT OF NON-ADMITTED ASSETS

		1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1.	Bonds (Schedule D)			
2.	Stocks (Schedule D):			
	2.1 Preferred stocks			
	2.2 Common stocks	7,888,000	7,888,000	
3.	Mortgage loans on real estate (Schedule B):			
	3.1 First liens			
	3.2 Other than first liens			
4.	Real estate (Schedule A):			
	4.1 Properties occupied by the company			
	4.2 Properties held for the production of income			
	4.3 Properties held for sale			
5.	Cash (Schedule E - Part 1), cash equivalents (Schedule E - Part 2) and short-term investments (Schedule DA)			
6.	Contract loans			
7.	Derivatives (Schedule DB)			
8.	Other invested assets (Schedule BA)			
9.	Receivables for securities			
10.	Securities lending reinvested collateral assets (Schedule DL)			
11.	Aggregate write-ins for invested assets	229,030,863	235,727,913	6,697,050
12.	Subtotals, cash and invested assets (Lines 1 to 11)	236,918,863	243,615,913	6,697,050
13.	Title plants (for Title insurers only)			
14.	Investment income due and accrued	41,264		(41,264)
15.	Premiums and considerations:			
	15.1 Uncollected premiums and agents' balances in the course of collection	117,305,150	142,743,554	25,438,404
	15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	25,292,032	18,527,771	(6,764,261)
	15.3 Accrued retrospective premiums	25,312,983	28,510,363	3,197,380
16.	Reinsurance:			
	16.1 Amounts recoverable from reinsurers			
	16.2 Funds held by or deposited with reinsured companies			
	16.3 Other amounts receivable under reinsurance contracts			
17.	Amounts receivable relating to uninsured plans			
18.1	Current federal and foreign income tax recoverable and interest thereon			
18.2	Net deferred tax asset	489,442,108	566,532,402	77,090,295
19.	Guaranty funds receivable or on deposit			
20.	Electronic data processing equipment and software	180,098,356	184,736,018	4,637,662
21.	Furniture and equipment, including health care delivery assets	19,388,496	9,173,217	(10,215,279)
22.	Net adjustment in assets and liabilities due to foreign exchange rates			
23.	Receivables from parent, subsidiaries and affiliates	2,018,757	1,911,836	(106,921)
24.	Health care and other amounts receivable			
25.	Aggregate write-ins for other than invested assets			
26.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	1,095,818,009	1,195,751,073	99,933,064
27.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
28.	Total (Lines 26 and 27)	1,095,818,009	1,195,751,073	99,933,064
	DETAILS OF WRITE-INS			
1101.	Amounts Billed and Receivable under High Deductible Policies	17,313,751	19,614,020	2,300,269
1102.	Surcharges and Other Amounts Recoverable	2,459,895	3,937,653	1,477,757
1103.	Equities and Deposits			
1198.	Summary of remaining write-ins for Line 11 from overflow page	209,257,217	212,176,241	2,919,023
1199.	Totals (Lines 1101 thru 1103 plus 1198)(Line 11 above)	229,030,863	235,727,913	6,697,050
2501.				
2502.				
2503.				
2598.	Summary of remaining write-ins for Line 25 from overflow page			
2599.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)			

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **Accounting Practices**

The accompanying financial statements of Zurich American Insurance Company (ZAIC or the Company) have been prepared in conformity with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual (NAIC SAP) and in conformity with accounting practices prescribed or permitted by the State of New York Department of Insurance (the New York Department of Insurance).

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of New York are shown below:

	State of Domicile		2011		2010
1. Net Income New York state basis	New York	$	960,441,660	$	819,011,588
2. State Prescribed Practices (Income)	New York		0		0
3. State Permitted Practices (Income)	New York		0		0
4. Net Income, NAIC SAP	New York	$	960,441,660	$	819,011,588
5. Statutory Surplus New York state basis	New York	$	7,018,779,407	$	7,374,164,582
6. State Prescribed Practices (Surplus)	New York		0		0
7. State Permitted Practices (Surplus)	New York		0		0
8. Statutory Surplus, NAIC SAP	New York	$	7,018,779,407	$	7,374,164,582

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

The preparation of financial statements in conformity with Annual Statement instructions and NAIC SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

As discussed further below, significant estimates and assumptions affect various provisions including losses. The liabilities for losses and loss adjustment expenses, although supported by actuarial analysis and other data, are ultimately based on management's reasoned expectations of future events.

C. **Accounting Policies**

Premiums are primarily earned on a daily prorata basis over the term of the policies and are net of reinsurance placed with reinsurers. Unearned premium reserves are established to cover unexpired portion of premiums written and are stated after deductions for related reinsurance amounts. Such reserves are computed on a prorata basis for direct business and are based on reports received from ceding companies for reinsurance. Policy acquisition costs such as commissions, premium taxes, and other underwriting and agency expenses are charged to income as incurred.

The Company provides a liability for losses based upon aggregate case-basis estimates for losses reported, estimates received from ceding reinsurers, and estimates of incurred but not reported (IBNR) losses related to direct and assumed business, less reinsured amounts. Reserves for unreported losses are established using various statistical and actuarial techniques reflecting historical patterns of development of paid and reported losses adjusted for current trends. Certain liabilities for unpaid losses related to workers' compensation pension cases and long-term disability losses are discounted to present value.

Because the ultimate settlement of claims is subject to future events, no single loss or loss adjustment expense (LAE) reserve can be considered accurate with certainty. The Company's analysis of the reasonableness of loss or LAE reserve estimates includes an analysis of the amount of variability in the estimate. The Company develops its estimate considering a range of reserve estimates bounded by a high and a low estimate. The high and low ends of the range do not correspond to an absolute best-and-worst case scenario of ultimate settlements because such estimates may be the result of unlikely assumptions. Management's best estimate therefore does not include the set of all possible outcomes but only those outcomes that are considered reasonable. The Company provides a liability for loss adjustment expenses by estimating future expenses to be incurred in settlement of the claims provided for in the liability for losses, which is stated after deduction for ceded reinsurance. Changes to previous estimates for loss and LAE reserves are reflected in the current year's underwriting results.

The Company reflects its liability for losses net of anticipated salvage and subrogation recoveries. Salvage and subrogation received and changes in estimates of future recoveries are reflected in the current year's underwriting results.

To control exposures to large property-casualty losses, the Company utilizes a variety of reinsurance agreements including, (i) facultative reinsurance, in which reinsurance is provided for all or a portion of the insurance provided by a single policy; (ii) treaty reinsurance, in which reinsurance is provided for a specified type or category of risks; (iii) catastrophe reinsurance, in which the ceding company is indemnified for an amount of loss in excess of a specified retention with respect to losses resulting from a catastrophic event; and (iv) aggregate excess of loss reinsurance, in which the ceding company is indemnified against additional covered loss and LAE in excess of a pre-defined loss ratio or loss retention for each accident year, as specified in the reinsurance agreements.

Realized gains or losses on the sale of investments, the recognition of other-than-temporary decline in value or circumstances where the Company has made a decision to sell a security at an amount below its carrying value, are determined on the basis of specific identification of the acquisition lots of the respective investment sold, written down or expected to be sold, and are reflected as a component of income. In the case of realized gains or losses on the sale of investments, the amount is reflected as a component of income, net of tax. Unrealized gains or losses on changes in the fair value of investments are credited or charged to unassigned surplus, net of deferred taxes.

The Company does not accrue interest income on fixed income securities which are deemed to be impaired on an other-than-temporary basis, when a determination is made that the likelihood of collection of such interest is doubtful.

Assets included in the statutory statement of admitted assets, liabilities and surplus are at admitted asset value. Non-admitted assets, principally deferred tax assets, agents' balances over 90-days past due, computer software, other equipment, and 10% of unsecured accrued retrospective premiums, are excluded from total assets and are reflected as a charge against surplus.

In addition, the Company uses the following accounting policies:

1. Short-term investments are stated at amortized cost.

2. Bonds not backed by other loans are stated at amortized cost except for bonds rated NAIC 3 or below, which are carried at the lower of amortized cost or fair value. The amortized cost of bonds, which is determined using the interest method, is adjusted for amortization of premium and accretion of discount using a level effective yield to maturity. Such amortization or accretion is included in investment income. Bonds that are classified as non-investment grade where it is determined that the collection of all contractual cash flows is not probable, are written down to the current market value and the difference is recorded as a realized loss.

3. Investments in unaffiliated common stocks are generally carried at fair market value, with the unrealized gains or losses reflected in unassigned surplus. The cost basis of common stocks is written down to market value and recorded as a realized loss when market value has been significantly below cost for an extended length of time and a determination is made that the financial condition or future prospects of the investee has deteriorated such that the decline in value is considered other-than-temporary.

4. Redeemable preferred stocks are stated at amortized cost. The amortized cost of the preferred stock is adjusted for amortization of premiums and accretion of discounts using a level of effective yield to maturity method. Such amortization or accretion is included in investment income. Preferred stock that are classified as non-investment grade where it is determined that collection of all contractual cash flows is not probable, are written down to the current market value and the difference is recorded as a realized loss.

5. The Company has no investments in mortgage loans.

6. Loan-backed securities are stated at amortized cost except for such securities rated NAIC 3 or below which are stated at the lower of amortized cost or fair market value. Amortization of discount or premium on mortgage-backed and asset-backed securities is recognized based on the estimated timing and amount of prepayments of the underlying assets. For all securities, except interest only securities or other securities where the yield has become negative, the amortization of discount or premium is adjusted using the retrospective method to reflect differences which arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated. To the extent the estimated lives of such securities change as a result of changes in prepayment rates, the adjustment is included in investment income. For all interest only securities or other securities where the yield has become negative, the Company uses the prospective method for amortization of discount or premium. Loan backed securities with evidence of deterioration of credit quality where the Company has the intent and ability to hold, for which it is probable that the Company will be unable to collect all contractual cashflows, are written down to the present value of expected cash flows calculated using the discount rate at the original acquisition.

7. Investments in common stock of U.S. based affiliated insurance companies are carried at the underlying statutory equity as reflected in the respective entity's financial statements. Investments in common stock of non-U.S. based insurance companies are carried at the underlying audited U.S. Generally Accepted Accounting Principles (GAAP) equity of the investee, adjusted to a statutory basis of accounting.

8. The Company has minor ownership interests in joint ventures and partnerships. The Company carries these interests based on the underlying audited GAAP equity of the investee.

9. The Company has no investments in derivatives.

10. The Company anticipates investment income as a factor in determining premium deficiency reserves. As of December 31, 2011, the Company did not record a premium deficiency reserve.

11. See Note 1C, paragraphs 2 and 3 above for Company's methodologies for estimating liabilities for losses and loss/claim adjustment expenses.

12. The Company has not modified its capitalization policy from the prior year.

13. The Company has no pharmaceutical rebate receivables.

2. ACCOUNTING CHANGES AND CORRECTIONS OF ERRORS

The Company adopted SSAP No. 35R "Guaranty Fund and Other Assessments" effective January 1, 2011. The revised SSAP modifies the conditions required before recognizing liabilities for insurance-related assessments. Under the new guidance the liability is not recognized until the event obligating an entity to pay an imposed or probable assessment has occurred and the amount of such an assessment can be reasonably estimated. In addition, the revised SSAP defines the criteria to record guaranty funds and expands disclosure requirements to include describing the nature of assessment by type and include a reconciliation of assets recognized from paid and accrued premium tax offsets or policy surcharges from the previous year to the current year. There was no material impact from this change in accounting principle. Please see Note 14B for disclosures related to SSAP 35R.

3. BUSINESS COMBINATIONS AND GOODWILL

None

4. DISCONTINUED OPERATIONS

None

5. INVESTMENTS

A. The Company has no investments in mortgage loans.

B. The Company did not have any debt restructuring during 2011.

C. The Company has no investments in reverse mortgages.

D. (1) Prepayment assumptions used for mortgage-backed and asset-backed securities were obtained from an external securities information service and are consistent with the current interest rate and economic environment.

(2) During 2011, the Company recognized the following other-than-temporary impairments related to loan backed securities.

Other-than-temporary impairment criteria	Amortized cost basis prior to any current period other-than-temporary impairment	Other-than-temporary impairment recognized in loss: Interest	Other-than-temporary impairment recognized in loss: Non-interest	Fair Value
Intent to sell	$ 42,884,180	$ -	$ 2,545,725	$ 40,338,455
Total 1st quarter	$ 42,884,180	$ -	$ 2,545,725	$ 40,338,455
Intent to sell	$ -	$ -	$ -	$ -
Total 2nd quarter	$ -	$ -	$ -	$ -
Intent to sell	$ 8,017,951	$ -	$ 271,586	$ 7,746,365
Total 3rd quarter	$ 8,017,951	$ -	$ 271,586	$ 7,746,365
Intent to sell	$ 7,391,191	$ -	$ 98,560	$ 7,292,631
Total 4th quarter	$ 7,391,191	$ -	$ 98,560	$ 7,292,631
Annual Aggregate Total	$ 58,293,322	$ -	$ 2,915,871	$ 55,377,451

(3) The Company recognized the following other-than-temporary impairments on securities held as of December 31, 2011 resulting from the present value of cash flows expected to be collected being less than the amortized cost basis of the security:

Cusip	Amortized cost basis prior to any current period other-than-temporary impairment	Present Value of projected cash flows	Recognized other-than-temporary impairment	Amortized cost after other-than-temporary impairment	Fair value at time of OTTI	Date of Financial Statement where reported
12667F7R0	$ 1,792,533	$ 304,362	$ 1,488,171	$ 304,362	$ 3,180,083	9/30/2009
12668BAE3	26,203,772	24,836,299	1,367,473	24,836,299	18,478,295	9/30/2009
22545LAT6	4,013,563	376,106	3,637,457	376,106	688,066	9/30/2009
22545XAN3	684,477	599,854	84,623	599,854	1,088,025	9/30/2009
225470VP5	4,865,667	4,769,497	96,170	4,769,497	3,160,690	9/30/2009
40256VAE8	981,280	812,382	168,898	812,382	390,000	9/30/2009
46625YA78	5,393,539	483,765	4,909,774	483,765	1,315,314	9/30/2009
46630JBJ7	10,026,663	538,281	9,488,382	538,281	2,543,048	9/30/2009
74958CAB6	5,828,989	5,607,353	221,636	5,607,353	3,808,363	9/30/2009
94984EBB7	791,633	766,755	24,878	766,755	766,755	9/30/2009
20173QAQ4	1,204,170	1,046,201	157,969	1,046,201	188,835	12/31/2009
22545LAR0	7,022,633	1,396,753	5,625,880	1,396,753	1,396,753	12/31/2009
225470NR0	12,311,367	5,775,043	6,536,324	5,775,043	5,775,043	12/31/2009
46631BAS4	259,209	144,839	114,370	144,839	141,655	12/31/2009
59020UYB5	39,281	18,305	20,976	18,305	12,783	12/31/2009
86359BAG6	1,433,858	1,403,347	30,511	1,403,347	440,939	12/31/2009
93934FHW5	9,611,867	9,404,867	207,000	9,404,867	8,181,606	12/31/2009
05949AZ37	4,630,955	4,488,092	142,863	4,488,092	3,776,244	3/31/2010
20173QAN1	903,027	517,730	385,297	517,730	158,494	3/31/2010
32051GF91	4,040,323	3,915,178	125,145	3,915,178	3,531,349	3/31/2010
81375WJV9	89,254	50,241	39,013	50,241	39,919	3/31/2010
86359BJF9	1,076,727	1,056,029	20,698	1,056,029	632,840	3/31/2010
12479DAG3	101,250	15,468	85,782	15,468	52,164	6/30/2010
20173QAN1	517,730	76,675	441,055	76,675	177,365	6/30/2010
20173QAQ4	1,046,201	100,647	945,554	100,647	221,105	6/30/2010
22545XAN3	599,854	-	599,854	-	248,226	6/30/2010
45661KAD2	15,229,015	15,053,908	175,107	15,053,908	9,869,508	6/30/2010
46631BAT2	66,423	-	66,423	-	44,900	6/30/2010
73316PHS2	4,344,685	194,147	4,150,538	194,147	1,038,581	6/30/2010
86359BAG6	1,294,177	1,188,133	106,044	1,188,133	243,700	6/30/2010
9393366B4	1,324,748	1,282,900	41,848	1,282,900	1,055,368	6/30/2010
007036GS9	3,447,297	3,015,370	431,927	3,015,370	2,970,179	9/30/2010
05946XXR9	5,148,464	4,671,883	476,581	4,671,883	4,816,696	9/30/2010
05949AJ35	3,596,483	3,574,996	21,487	3,574,996	3,192,340	9/30/2010
05949AZ37	3,925,243	3,765,615	159,628	3,765,615	3,685,399	9/30/2010
05949CHU3	5,001,442	4,498,643	502,799	4,498,643	4,052,045	9/30/2010
05950PAE3	3,955,141	2,802,147	1,152,994	2,802,147	2,981,058	9/30/2010
07387JAN6	7,629,696	5,293,500	2,336,196	5,293,500	2,621,681	9/30/2010
07388LAN0	7,523,283	3,973,500	3,549,783	3,973,500	2,659,669	9/30/2010

12668AF83	28,535,226	27,264,248	1,270,978	27,264,248	24,391,005	9/30/2010
12668AYJ8	22,216,921	20,836,027	1,380,894	20,836,027	18,113,366	9/30/2010
12668BAE3	18,750,900	18,398,590	352,310	18,398,590	14,365,135	9/30/2010
126694HN1	7,286,307	7,101,111	185,196	7,101,111	6,857,823	9/30/2010
172981AA0	11,363,128	10,913,887	449,241	10,913,887	11,812,446	9/30/2010
17311LAA9	20,577,825	17,863,268	2,714,557	17,863,268	14,775,611	9/30/2010
2254582Q0	2,750,755	2,585,603	165,152	2,585,603	2,630,388	9/30/2010
225470VP5	4,769,497	4,231,652	537,845	4,231,652	3,832,485	9/30/2010
32051GF91	3,698,066	3,489,871	208,195	3,489,871	3,631,718	9/30/2010
32056FAA0	21,488,165	20,740,920	747,245	20,740,920	19,089,581	9/30/2010
3622X7AS5	3,707,233	3,454,147	253,086	3,454,147	3,564,384	9/30/2010
45661KAD2	14,705,384	14,244,557	460,827	14,244,557	10,830,452	9/30/2010
61748HAV3	4,961,979	4,875,518	86,461	4,875,518	3,874,590	9/30/2010
74958CAB6	4,591,599	3,517,589	1,074,010	3,517,589	3,568,682	9/30/2010
76110VQX9	2,886,834	2,599,283	287,551	2,599,283	2,169,948	9/30/2010
76111XE58	7,990,358	7,896,970	93,388	7,896,970	7,578,587	9/30/2010
86359B3A7	4,602,744	4,307,734	295,010	4,307,734	4,635,790	9/30/2010
93934FHW5	8,197,819	7,886,188	311,631	7,886,188	7,047,593	9/30/2010
949832AM1	1,254,764	1,162,032	92,732	1,162,032	1,212,679	9/30/2010
94985JAA8	4,554,721	3,986,892	567,829	3,986,892	4,500,218	9/30/2010
07388LAN0	3,973,500	656,250	3,317,250	656,250	3,762,770	12/31/2010
3136FA6V7	318,094	283,088	35,006	283,088	278,120	12/31/2010
3136FA6Z8	767,656	762,570	5,086	762,570	725,341	12/31/2010
38374BJV6	1,976,841	1,907,548	69,293	1,907,548	1,502,470	12/31/2010
46626LBL3	944,535	688,829	255,706	688,829	92,371	12/31/2010
57643MAT1	80,425	75,514	4,911	75,514	59,457	12/31/2010
86359BJF9	1,000,828	943,239	57,589	943,239	288,426	12/31/2010
03927RAC8	6,011,445	300,000	5,711,445	300,000	300,000	3/31/2011
12479DAG3	15,468	7,800	7,668	7,800	47,508	3/31/2011
12513YAP5	926,289	850,000	76,289	850,000	850,000	3/31/2011
12667F7R0	298,757	-	298,757	-	1,042,659	3/31/2011
12668BAE3	15,566,627	14,366,121	1,200,506	14,366,121	12,313,787	3/31/2011
172981AA0	10,035,128	9,436,236	598,892	9,436,236	10,943,582	3/31/2011
20173QAQ4	100,647	98,160	2,487	98,160	503,303	3/31/2011
59020UYB5	15,972	4,070	11,902	4,070	3,242	3/31/2011
73316PHS2	194,147	24,043	170,104	24,043	1,288,744	3/31/2011
74958CAB6	3,107,070	3,013,928	93,142	3,013,928	3,009,184	3/31/2011
81375WJV9	35,006	17,045	17,961	17,045	165,978	3/31/2011
86359BAG6	1,072,238	1,042,110	30,128	1,042,110	192,503	3/31/2011
949832AM1	1,016,857	898,288	118,569	898,288	892,367	3/31/2011
94984EBB7	425,159	382,856	42,303	382,856	381,010	3/31/2011
12479DAG3	6,388	3,279	3,109	3,279	20,623	6/30/2011
126673JJ2	1,220,933	152,428	1,068,505	152,428	207,311	6/30/2011
12668AF83	23,184,714	20,749,288	2,435,426	20,749,288	20,749,288	6/30/2011
22541SFP8	2,072,205	985,160	1,087,045	985,160	208,807	6/30/2011
22545LAR0	1,396,753	765,540	631,213	765,540	3,072,108	6/30/2011
86359BAF8	1,318,443	1,177,816	140,627	1,177,816	411,576	6/30/2011
86359BAG6	1,017,743	295,884	721,859	295,884	189,276	6/30/2011
86359BJE2	1,267,344	819,060	448,284	819,060	495,406	6/30/2011
86359BJF9	921,727	174,243	747,484	174,243	174,243	6/30/2011
93934FHW5	6,569,767	5,912,513	657,254	5,912,513	5,978,405	6/30/2011
94984EBB7	378,965	336,413	42,552	336,413	444,776	6/30/2011
03927RAC8	300,000	120,000	180,000	120,000	60,000	9/30/2011
12513YAP5	850,000	342,080	507,920	342,080	342,080	9/30/2011
36170VAD1	8,921,000	-	8,921,000	-	624,470	9/30/2011
45661KAD2	12,345,075	10,576,802	1,768,273	10,576,802	8,061,387	9/30/2011
86359BJF9	170,688	-	170,688	-	179,167	9/30/2011
38374BJV6	892,736	642,326	250,410	642,326	582,764	12/31/2011
57643MAT1	46,099	41,853	4,246	41,853	34,130	12/31/2011
589929TD0	499,502	469,916	29,586	469,916	364,689	12/31/2011
46626LBL3	688,829	524,250	164,579	524,250	127,420	12/31/2011
	$ 478,797,744	$ 385,021,444	$ 93,776,300	$ 385,021,444	$ 349,078,312	

(4) As of December 31, 2011, the amount of impaired securities for which the Company has not recognized an other-than-temporary impairment are as follows:

	Fair Value	Gross unrealized losses
Unrealized loss position for less than 12 months	$ 488,046,392	$ (6,191,720)
Unrealized loss position for 12 months or longer	266,308,996	(65,080,343)
	$ 754,355,388	$ (71,272,063)

(5) All loan backed and structured securities were reviewed to determine if there were any indications of potential other-than-temporary impairment. Where there are indications of other-than-temporary impairment, cash flow and credit support analyses were performed. If based on such analysis it was determined that the Company was expected to receive less than 100% contractual cash flows, an other-than-temporary impairment was recorded in accordance with SSAP 43R.

E. The Company participates in a securities lending program and invests the collateral received to secure the securities loaned under the securities lending program. In accordance with the agreement with the custodian bank facilitating such lending, collateral with fair value of at least 102% of the fair value of the loaned securities is required when securities are loaned, and additional collateral is required if the fair value of the collateral drops below 100% during the term of the loan. The aggregate amount of the contractually obligated open collateral positions at December 31, 2011 was $120,821,061 and were all under 30 day term. The fair value of the reinvested collateral was $120,821,061, which was provided by our security lending agent the Bank of New York Mellon (BNY Mellon) based on publicly available quoted market pricing. The collateral received is invested in short-term reverse repurchase contracts or money market mutual funds and was all under 30 day term. (See Note 17B).

F. The Company has no investments in real estate.

G. The Company owns two low-income housing tax credit bonds that have 4 years of unexpired tax credit. The Company has no investments in low-income housing tax credit bonds that individually exceed 10% of the Company's admitted assets.

Additionally, during 2011, the Company recognized an other-than-temporary impairment of $38,964,338 on its investment in fixed income, and common stock.

Securities	Total 1st Quarter	Total 2nd Quarter	Total 3rd Quarter	Total 4th Quarter	Total for 2011
Fixed Income	$ 14,652,556	$ 8,736,579	$ 11,819,465	$ 863,399	$ 36,071,999
Common Stock	-	-	-	2,892,339	2,892,339
	$ 14,652,556	$ 8,736,579	$ 11,819,465	$ 3,755,738	$ 38,964,338

6. **JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES**

A. The Company has no investments in joint ventures, partnerships or limited liability companies, which individually exceed 10% of the Company's admitted assets.

B. In addition to the amounts discussed in Note 5 above, during 2011, the Company recorded an other-than-temporary impairment of $50,153,706 related to its investment in partnerships.

Partnership	Impairment loss for 2011
BlackRock SAF	$ 13,671,195
LaSalle Income & Growth Fund IV	8,307,590
Colony Realty Partners II	7,921,331
Hines US Core Office Fund	6,500,819
RREEF America II	4,686,304
Vicis Capital Fund	2,338,663
CrossHarbor Institutional Partners	1,861,346
PCCP Mezz Recovery Partners I, LP (Lehman Mezz Debt)	1,592,683
US Bankcorp Building	1,421,663
LaSalle Income & Growth Fund V	974,022
Jana Partners Qualified LP Class A (1/2008)	878,090
Total	$ 50,153,706

Fair value for the joint ventures and partnership investments were determined on the basis of audited U. S. GAAP financial statements of the investee, which incorporates the fair value of the investments of the joint venture and partnerships. Other-than-temporary impairments were recorded based on the cost of the investments being less than the corresponding fair value for a consecutive 24 month period.

7. **INVESTMENT INCOME**

The Company's accrued investment income due and accrued with amounts over 90 days past due is treated as a non-admitted asset. The total amount excluded from surplus as of December 31, 2011 was $41,264.

8. **DERIVATIVE INSTRUMENTS**

None

9. **INCOME TAXES**

A. The components of the net deferred tax assets/(liabilities) at December 31 are as follows:

1.

		12/31/2011			12/31/2010			Change		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Ordinary	Capital	Total (Col 1+2)	Ordinary	Capital	Total (Col 1+2)	Ordinary (Col 1-4)	Capital (Col 2-5)	Total (Col 7+8)
(a)	Gross Deferred Tax Assets	$ 1,205,920,070	$ 188,632,565	$ 1,394,552,635	$ 1,312,334,562	$ 228,893,363	$ 1,541,227,925	$ (106,414,492)	$ (40,260,798)	$ (146,675,290)
(b)	Statutory Valuation Allowance Adjustment	0	96,457,272	96,457,272	0	135,411,856	135,411,856	0	(38,954,584)	(38,954,584)
(c)	Adjusted Gross Deferred Tax Assets (1a-1b)	1,205,920,070	92,175,293	1,298,095,363	1,312,334,562	93,481,507	1,405,816,069	(106,414,492)	(1,306,214)	(107,720,706)
(d)	Deferred Tax Liabilities	24,270,773	92,175,293	116,446,066	18,517,411	91,736,712	110,254,123	5,753,362	438,581	6,191,943
(e)	Subtotal Net Deferred Tax Asset/(Net Deferred Tax Liability) (1c-1d)	1,181,649,297	0	1,181,649,297	1,293,817,151	1,744,795	1,295,561,946	(112,167,854)	(1,744,795)	(113,912,649)
(f)	Deferred Tax Assets Nonadmitted	392,984,836	0	392,984,836	431,120,546	0	431,120,546	(38,135,710)	0	(38,135,710)
(g)	Net Admitted Deferred Tax Asset/(Net Deffered Tax Liability) (1e-1f)	$ 788,664,461	$ 0	$ 788,664,461	$ 862,696,605	$ 1,744,795	$ 864,441,400	$ (74,032,144)	$ (1,744,795)	$ (75,776,939)

2. During 2009 the Company adopted the provision of SSAP 10R, effective for year-end 2009 and interim and annual periods during 2010 and 2011. As permitted by this guidance, the Company has elected to apply the provisions of 10 e.

3.

	12/31/2011			12/31/2010			Change		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Ordinary	Capital	Total (Col 1+2)	Ordinary	Capital	Total (Col 1+2)	Ordinary (Col 1-4)	Capital (Col 2-5)	Total (Col 7+8)
Increase in admitted deferred tax assets through application of SSAP 10R, paragraph (e):	$ 340,894,437	$ 0	$ 340,894,437	$ 321,550,097	$ 0	$ 321,550,097	$ 19,344,340	$ 0	$ 19,344,340

4.

		12/31/2011			12/31/2010			Change		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Ordinary	Capital	Total (Col 1+2)	Ordinary	Capital	Total (Col 1+2)	Ordinary (Col 1-4)	Capital (Col 2-5)	Total (Col 7+8)
	Admission Calculation Components SSAP No. 10R, Paragraphs 10.a.., 10.b., and 10.c.:									
(a)	SSAP No. 10R, Paragraph 10.a.	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
(b)	SSAP No. 10R, Paragraph 10.b. (the lesser of paragraph 10.b.i. and 10.b.ii. below)	447,770,024	0	447,770,024	539,979,509	2,911,794	542,891,303	(92,209,485)	(2,911,794)	(95,121,279)
(c)	SSAP No. 10R, Paragraph 10.b.i.	447,770,024	0	447,770,024	539,979,509	2,911,794	542,891,303	(92,209,485)	(2,911,794)	(95,121,279)
(d)	SSAP No. 10R, Paragraph 10.b.ii.	XXXX	XXXX	666,934,264	XXXX	XXXX	630,154,389	XXXX	XXXX	36,779,875
(e)	SSAP No. 10R, Paragraph 10.c.	24,270,773	92,175,293	116,446,066	19,684,410	90,569,712	110,254,122	4,586,363	1,605,581	6,191,944
(f)	Total (4a+4b+4e)	$ 472,040,797	$ 92,175,293	$ 564,216,090	$ 559,663,919	$ 93,481,506	$ 653,145,425	$ (87,623,122)	$ (1,306,213)	$ (88,929,335)
	Admission Calculation Components SSAP No. 10R, Paragraphs 10.e.:									
(g)	SSAP No. 10R, Paragraph 10.e.i.	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
(h)	SSAP No. 10R, Paragraph 10.e.ii. (the lesser of paragraph 10.e.ii.a. and 10.e.ii.b. below)	788,664,461	0	788,664,461	861,529,606	2,911,794	864,441,400	(72,865,145)	(2,911,794)	(75,776,939)
(i)	SSAP No. 10R, Paragraph 10.e.ii.a.	788,664,461	0	788,664,461	861,529,606	2,911,794	864,441,400	(72,865,145)	(2,911,794)	(75,776,939)
(j)	SSAP No. 10R, Paragraph 10.e.ii.b.	XXXX	XXXX	1,000,401,396	XXXX	XXXX	945,231,583	XXXX	XXXX	55,169,813
(k)	SSAP No. 10R, Paragraph 10.e.iii.	24,270,773	92,175,293	116,446,066	19,684,410	90,569,712	110,254,122	4,586,363	1,605,581	6,191,944
(l)	Total (4g+4h+4k)	$ 812,935,234	$ 92,175,293	$ 905,110,527	$ 881,214,016	$ 93,481,506	$ 974,695,522	$ (68,278,782)	$ (1,306,213)	$ (69,584,995)
	Used in SSAP No. 10R, Paragraph 10.d.									
(m)	Total Adjusted Capital			6,677,894,970			7,052,614,485			
(n)	Authorized control level			1,778,732,668			1,837,209,052			

5.

		12/31/2011			12/31/2010			Change		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Ordinary Percent	Capital Percent	Total Percent (Col 1+2)	Ordinary Percent	Capital Percent	Total Percent (Col 1+2)	Ordinary (Col 1-4)	Capital (Col 2-5)	Total (Col 7+8)
	Impact of Tax Planning Strategies									
(a)	Adjusted Gross DTAs (% of Total Adjusted Gross DTAs)	0.00%	0.00%	0.00%	0.00%	0.21%	0.21%	0.00%	-0.21%	-0.21%
(b)	Net Admitted Adjusted Gross DTAs (% of Total Net Admitted Adjusted Gross DTAs)	0.00%	0.00%	0.00%	0.00%	0.34%	0.34%	0.00%	-0.34%	-0.34%

6

		12/31/2011			12/31/2010			Change		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Ordinary	Capital	Total (Col 1+2)	Ordinary	Capital	Total (Col 1+2)	Ordinary (Col 1-4)	Capital (Col 2-5)	Total (Col 7+8)
	SSAP No. 10R, Paragraphs 10.a.., 10.b., and 10.c.:									
(a)	Admitted Deferred Tax Assets	$ 472,040,797	$ 92,175,293	$ 564,216,090	$ 559,663,919	$ 93,481,506	$ 653,145,425	$ (87,623,122)	$ (1,306,213)	$ (88,929,335)
(b)	Admitted Assets	$ XXXX	$ XXXX	$ 28,388,384,329	$ XXXX	$ XXXX	$ 29,098,838,348	$ XXXX	$ XXXX	$ (710,454,019)
(c)	Adjusted Statutory Surplus *	$ XXXX	$ XXXX	$ 6,669,342,643	$ XXXX	$ XXXX	$ 6,301,543,889	$ XXXX	$ XXXX	$ 367,798,754
(d)	Total Adjusted Capital from DTAs	$ XXXX	$ XXXX	$ 6,677,894,970	$ XXXX	$ XXXX	$ 7,052,614,485	$ XXXX	$ XXXX	$ (374,719,515)
	Increases due to SSAP No. 10R, Paragraph 10.e.									
(e)	Admitted Deferred Tax Assets	$ 340,894,437	$ 0	$ 340,894,437	$ 321,550,097	$ 0	$ 321,550,097	$ 19,344,340	$ 0	$ 19,344,340
(f)	Admitted Assets	$ 340,894,437	$ 0	$ 340,894,437	$ 321,550,097	$ 0	$ 321,550,097	$ 19,344,340	$ 0	$ 19,344,340
(g)	Statutory Surplus	$ 340,894,437	$ 0	$ 340,894,437	$ 321,550,097	$ 0	$ 321,550,097	$ 19,344,340	$ 0	$ 19,344,340

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

B. Deferred tax liabilities have been recognized for all taxable temporary differences.

C. Current income taxes incurred consist of the following major components:

	(1) 12/31/2011	(2) 12/31/2010	(3) Change (Col 1+2)
1. Current Income Tax			
(a) Federal	$ (7,800,012)	$ 27,933,966	$ (35,733,978)
(b) Foreign	5,343	-	5,343
(c) Subtotal	$ (7,794,669)	$ 27,933,966	$ (35,728,635)
(d) Federal income tax on net capital gains	2,879,587	1,557,068	1,322,519
(e) Utilization of capital loss carry-forwards	-	(1,980,915)	1,980,915
(f) Other	-	-	-
(g) Federal and foreign income taxes incurred	$ (4,915,082)	$ 27,510,119	$ (32,425,201)
2. Deferred Tax Assets:			
(a) Ordinary			
(1) Loss reserve discounting	$ 550,169,662	$ 605,712,169	$ (55,542,507)
(2) Unearned premium reserves	285,896,968	305,770,794	(19,873,826)
(3) Accruals not currently deductible	6,471,802	21,131,212	(14,659,410)
(4) Fixed Assets	0	0	-
(5) Non-admitted assets	205,989,438	217,465,735	(11,476,297)
(6) Pension	64,225,289	79,383,185	(15,157,896)
(7) Compensation Accruals	71,795,091	73,961,977	(2,166,886)
(8) Other - Misc	21,366,477	8,909,490	12,456,987
(9) Foreign Tax Credit	5,343	0	5,343
(99) Subtotal	$ 1,205,920,070	$ 1,312,334,562	$ (106,414,492)
(b) Statutory valuation allowance adjustment	0	0	-
(c) Nonadmitted	392,984,836	431,120,546	(38,135,710)
(d) Admitted ordinary deferred tax assets (2a99-2b-2c)	$ 812,935,234	$ 881,214,016	$ (68,278,782)
(e) Capital:			
(1) Impairments	$ 80,405,484	$ 101,313,461	$ (20,907,977)
(2) Partnership basis difference	55,657,962	50,620,240	5,037,722
(3) Unrealized losses on bonds	18,401,181	30,119,547	(11,718,366)
(4) Unrealized losses on equity securities	22,898,207	14,542,447	8,355,760
(5) Unrealized losses on partnerships	11,269,731	29,385,874	(18,116,143)
(6) Capital Loss Carryforward	0	2,911,794	(2,911,794)
(99) Subtotal	$ 188,632,565	$ 228,893,363	$ (40,260,798)
(f) Statutory valuation allowance adjustment	96,457,272	135,411,856	(38,954,584)
(g) Nonadmitted	0	0	-
(h) Admitted capital deferred tax assets (2e99-2f-2g)	$ 92,175,293	$ 93,481,507	$ (1,306,214)
(i) Admitted deferred tax asset (2d+2h)	$ 905,110,527	$ 974,695,523	$ (69,584,996)
3. Deferred Tax Liabilities			
(a) Ordinary			
(1) Salvage and subrogation	$ 9,414,807	$ 9,507,622	$ (92,815)
(2) Fixed Assets	2,825,678	4,321,043	(1,495,365)
(3) Accrual of Discount on Bonds	11,428,160	3,790,611	7,637,549
(4) Other - Misc	602,128	898,135	(296,007)
(99) Subtotal	$ 24,270,773	$ 18,517,411	$ 5,753,362
(b) Capital:			
(1) Unrealized gains on equity securities	$ 34,885,535	$ 42,771,641	$ (7,886,106)
(2) Unrealized gains on partnerships	57,289,758	48,965,071	8,324,687
(3) Partnership basis difference	0	0	0
(99) Subtotal	$ 92,175,293	$ 91,736,712	$ 438,581
(c) Deferred Tax Liabilities (3a99+3b99)	$ 116,446,066	$ 110,254,123	$ 6,191,943
4. Net deferred tax assets/liabilities (2i-3c)	$ 788,664,461	$ 864,441,400	$ (75,776,939)

D. The effective tax rate differs from the statutory tax rate of 35% primarily due to taxable income absorbed by affiliate losses. Other differences in the tax rate are the result of permanent differences attributable to tax-exempt interest, the deduction allowed on dividends received from affiliates and third parties, incentive compensation, and various nondeductible expenses. Additional differences result from adjustments to the reserve for tax contingencies and adjustments to tax expense accruals recorded in prior years.

E. 1. At December 31, 2011, the consolidated group had $914,652,045 of operating loss carryforward which originated and expire as follows:

Origination Year	Expiration Year	Amount
2005	2025	$ 341,783,242
2004	2024	572,867,300
1999	2018	1,503
		$ 914,652,045

2. The Company's federal income tax incurred in the current year and prior year that will be available for recoupment in the event of future net losses:

Origination Year	Amount
2010	None
2009	None

3. The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Service Code was $0 as of December 31, 2011.

F. 1 The Company's Federal Income Tax is consolidated with the following entities, with Zurich Holding Company of America, Inc. as the parent:

American Guarantee and Liability Insurance Company
American Zurich Insurance Company
Assurance Company of America
Colonial American Casualty & Surety Company
Empire Fire and Marine Insurance Company
Empire Indemnity Insurance Company
Fidelity & Deposit Company of Maryland
Maryland Casualty Company
Maunalua Associates, Inc.
Northern Insurance Company of New York
South County Services Company Inc.
Steadfast Insurance Company
The Zurich Services Corporation
Universal Underwriters Acceptance Corporation
Universal Underwriters Insurance Company
Universal Underwriters Insurance Services, Inc.
Universal Underwriters Life Insurance Company
Universal Underwriters of Texas Insurance Company
Universal Underwriters Service Corporation
UUBVI, Limited
Vehicle Dealer Solutions, Inc.
Zurich Agency Services, Inc.
Zurich Alternative Asset Management, LLC
Zurich American Insurance Company
Zurich American Insurance Company of Illinois
Zurich American Corporation
Zurich American Life Insurance Company
Zurich American Life Insurance Company of New York
Zurich CZI Management Holding, Ltd.
Zurich E & S Insurance Brokerage, Inc.
Zurich Finance (USA), Inc.
Zurich Global, Ltd.
Zurich Global Investment Management Inc.
Zurich Holding Company of America, Inc.
Zurich Latin America Corporation
Zurich Realty, Inc.
Zurich Warranty Solutions, Inc.

2 The Company has a written tax allocation agreement which sets out the method of allocating tax between the companies. In general, the allocation is based upon a separate return calculation with no immediate benefit for a taxable loss, which is utilized in the current year consolidated return. Intercompany tax balances are settled within thirty days after: the filing of the consolidated Federal income tax return; the payment of an estimated payment; an additional assessment of the consolidated tax liability; a refund of the consolidated tax liability; or any other adjustment to the member's apportioned tax liability in accordance with the terms of the tax sharing agreement.

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AFFILIATES AND OTHER RELATED PARTIES

A-C. The Company is the lead company of a group of U.S. based property and casualty insurers which provide a variety of commercial insurance and risk management products and services to domestic and international companies. All the companies in the group directly or indirectly participate in an inter-company pooling agreement (the Pool or Pooling Agreement). Under the terms of the Pooling Agreement, all transactions included in the net income or loss resulting from underwriting operations and the related asset and liability accounts, after the effects of third party reinsurance, are distributed 100% to the Company. The Company also provides certain facilities and administrative services to its subsidiaries and affiliates on a cost incurred or estimated allocation basis, under administrative services agreements. These costs have been allocated to the Company's subsidiaries and affiliates in conformity with customary insurance accounting practices consistently applied.

All outstanding shares of the Company are owned by Zurich Holding Company of America, Inc. (ZHCA), a business corporation domiciled in the state of Delaware, which is 99.87% owned directly by Zürich Versicherungs-Gesellchaft AG, Zurich, Switzerland. Zürich Versicherungs-Gesellchaft AG is 100% owned by Zurich Financial Services Ltd., Switzerland.

Affiliated parties are disclosed in the organizational chart of Schedule Y. Investments in affiliates or subsidiaries are disclosed in Schedule D under the caption "Parents, Subsidiaries and Affiliates".

Effective with the fourth quarter of 2011, the Superintendent of the New York Insurance Department approved the Company's request to record and reimburse Zurich Financial Services Ltd. (ZFS) quarterly for the cost of shares awarded to its employees under ZFS' Long Term Incentive Compensation Plan (LTIP Plan). Compensation expenses under the LTIP Plan are determined in accordance with SSAP 13.

During 2011, the Company received ordinary cash dividends from the following wholly-owned subsidiaries:

Company	Date Paid		Amount
Steadfast Insurance Company	Dec 22	$	33,600,000
Universal Underwriters Insurance Company	Dec 22		17,800,000
Fidelity & Deposit Company of Maryland	Dec 22		6,600,000
Empire Fire and Marine Insurance Company	Dec 22		5,300,000
		$	63,300,000

During 2011, the Company received no extraordinary cash dividends from its wholly-owned subsidiaries.

On April 1, 2011 the Company entered into purchase agreements with Farmers New World Life Insurance Company, a Washington insurer affiliated to the Company, to purchase four joint venture interests based on the fair market value as of March 31, 2011. The final purchase price was determined and settled in cash at a price of $20,456,835 during the second quarter of 2011.

On June 27, 2011 and December 27, 2011 the Company made separate capital contributions of $10,000,000 each to its wholly-owned subsidiary Empire Indemnity Insurance Company.

During 2011, the Superintendent of the New York Insurance Department approved the pay-off of five surplus notes owned by the Company. These surplus notes were issued by Farmers Insurance Exchange, Truck Insurance Exchange, Fire Insurance Exchange and Farmers Insurance Co. of Oregon. During 2011, the Company received interest through June 30, 2011 of $50,448,279 on these surplus notes. Also during 2011, the Company paid an alien affiliate a guarantee fee of $1,136,639 to guarantee payment of interest and repayment of principal related to these surplus notes. On September 23, 2011 the Company received $907,000,000 covering the principal on these surplus notes with an effective date of June 30, 2011.

Issuer		Principal received		Interest received		Total received including principal pay down
Farmers Insurance Exchange	$	296,000,000	$	16,585,866	$	312,585,866
Farmers Insurance Exchange		280,000,000		15,737,167		295,737,167
Truck Insurance Exchange		136,500,000		7,671,869		144,171,869
Fire Insurance Exchange		107,000,000		6,013,846		113,013,846
Farmers Insurance Co.of Oregon		87,500,000		4,439,531		91,939,531
	$	907,000,000	$	50,448,279	$	957,448,279

Additionally, the Superintendent of the New York Insurance Department also approved the purchase of three surplus notes with a maturity date of June 30, 2021. The notes were issued by Farmers Insurance Exchange (two notes) and Truck Insurance Exchange. These notes have an annual interest rate of 6.15% due semi-annually on June 30 and December 31. These surplus notes were purchased on September 23, 2011 with an effective date of June 30, 2011. Zurich Financial Services, the Company's ultimate parent, in its capacity as primary obligator, issued a guarantee of $454.3 million towards payment of interest and principal payable by Farmers Insurance Exchange and Truck Insurance Exchange.

Issuer		Principal loaned
Farmers Insurance Exchange	$	707,000,000
Farmers Insurance Exchange		140,000,000
Truck Insurance Exchange		60,000,000
	$	907,000,000

During 2011, the Company paid an alien affiliate a guarantee fee of $4,088,302 to guarantee payment of interest and repayment of principal related to the above referred surplus notes purchased from affiliates in 2011. The guarantee fee is payable annually on April 1st of each year, as long as the Company holds these surplus notes.

Additionally, during 2011, the Company paid interest of $86,747,500 on surplus notes held by its parent, ZHCA. Payment of interest on the surplus notes was approved by the Superintendent of the Department of Insurance of the State of New York (Superintendent). (Please refer to Note 13 (11) for additional information.).

D. The Company reported the following amounts due from (to) affiliates as of December 31, 2011 and December 31, 2010:

Pooled Affiliates		December 31, 2011		December 31, 2010
American Guarantee and Liability Insurance Company	$	19,582,507	$	(7,543,262)
Universal Underwriters Insurance Company		8,510,221		2,607,492
American Zurich Insurance Company		2,866,803		(18,657,541)
Empire Fire and Marine Insurance Company		2,696,261		(27,307,844)
Northern Insurance Company of New York		193,063		5,372,053
Zurich American Insurance Company of Illinois		30,963		(3,433,538)
Empire Indemnity Insurance Company		(503,254)		(314,213)
Universal Underwriters of Texas Insurance Company		(516,062)		275,985
Assurance Company of America		(881,963)		(3,632,268)
Colonial American Casualty and Surety Company		(1,924,740)		34,796
Maryland Casualty Company		(2,291,184)		(1,358,986)
Steadfast Insurance Company		(29,812,744)		9,928,000
Fidelity and Deposit Company of Maryland		(35,034,795)		(43,841,947)
Total Pooled Affiliates	$	(37,084,924)	$	(87,871,273)

Non- Pooled Affiliates	December 31, 2011	December 31, 2010
Universal Underwriters Services Corp	$ 17,434,301	$ 19,018,498
ZIC HQE	7,842,010	65,000
Kemper Investors	4,175,503	0
Zurich Services Corporation	3,635,569	(2,218,273)
Zurich Global Ltd	2,913,273	(6,083,422)
Zurich Canadian Holdings	2,817,843	1,363,492
ZIP - Netherlands Bank	2,671,550	2,771,317
ZIC - GRI Region - Continental Europe	2,486,436	109,419
Zurich Latin America Corporation	2,408,405	2,850,671
Zurich Insurance Company - Canada	2,113,290	5,938,881
ZIP - UK Branch	1,778,509	(8,605,994)
Centre Group Holdings	1,614,840	3,595,158
Zurich Alternative Asset Management	1,470,906	1,494,555
Zurich Insurance Plc, Succursale Belgium	1,407,269	13,704
Zurich American Life Insurance Company	1,222,383	(1,033,007)
Zurich Realty Inc.	1,012,671	872,923
Farmers Group, Inc.	684,279	904,287
ZIC - DIFC Branch_MVRU	669,604	641,247
Universal Underwriters Insurance Services	603,633	553,046
Zuerich Versicherungs-Gesellsc Laft, AG Group Shared Services	508,230	3,245,722
Zurich Global Invest Advisors Ltd.	458,789	(136,613)
World Travel Protection	316,471	264,604
Zurich Employment Services Limited	197,367	(7,756)
Zurich International (Bermuda) Ltd.	174,650	210,299
Zurich Services (Hong Kong) Limited	167,189	272
Zurich Insurance Bermuda Branch - Global Energy	164,654	129,117
ZIP - Rappr. Gen. Italy MVRU	153,392	111,232
Kemper Corporation (KCORP)	141,585	167,493
ZIC Gre Region Middle East	119,882	0
Zurich Australain Insurance Limited	99,262	41,359
Zurich Compañia de Seguros S.A.	89,794	114,942
ZIC Gre Region APAC	70,307	0
UUBVI Ltd.	64,301	(3,547,321)
Zurich Services GMBH	48,221	117,072
Zurich Sigorta A. S.	15,855	2,853
Z Vers.Gesell.AG, Regio Zürich	3,436	38,889
Zurich Seguros ALORA	1,860	0
ZIC - Global Energy	1,542	(186,561)
Zurich Agency Services Incorporated	6	(83,156)
Zurich Warranty Management Services	0	87,426
Zurich Insurance Company, Ltd.	0	30,737
Europe General Insurance	0	(122,242)
Zurich Specialties London Ltd.	(1)	(96,964)
Zurich Insurance pic - Ireland	(1,575)	0
Zurich Insurance Plc(Ireland) Filial Sverige	(2,698)	91,810
Zuerich Versicherungs-Aktienga	(10,091)	(4,228)
Zurich Insurance (Taiwan) Ltd.	(21,381)	4,870
ZIP - Niederlassung fur Deutsc	(55,521)	64,006
ZIC Ltd, Ireland Branch	(63,488)	226,532
GRe Regular	(65,892)	(327,547)
Zurich Minas Brasil Seguros	(68,545)	24,931
Zurich Financial Services Australia Ltd.	(73,806)	67,836
ZIP - Branch in France	(77,028)	(325,626)
Zurich Management Services	(83,736)	(17,734)

ZIP - sucural rn Espana	(115,890)	(2,088)
Zurich Global Invest. Management Europe	(150,803)	10,230
Zurich Insurance Company Ltd., Singapore	(219,274)	18,853
Zurich Insurance Company- GC in Europe	(258,434)	181,430
Zurich E&S Brokerage, Inc.	(654,501)	32,740
Vehicle Dealer Solutions, Inc.	(831,394)	(460,489)
Centre Insurance Company	(1,006,729)	(1,006,729)
Universal Underwriters Life Insurance	(3,240,068)	3,700,786
ZNA Services LLC	(4,776,232)	7,884,643
Zurich Holding Company of America	(9,446,971)	9,239,450
All Other Non-Pooled Affiliates	21,248	(70,111)
Total Non- Pooled Affiliates	$ 40,556,257	$ 41,966,471
Total Pooled and Non-Pooled	$ 3,471,333	$ (45,904,802)

Reconciliation to Financial Statements	December 31, 2011	December 31, 2010
Receivable from parent, subsidiaries and affiliates	$ 95,583,016	$ 84,104,105
Payable to parent, subsidiaries and affiliates	(92,111,683)	(130,008,907)
Balance due to parent, subsidiaries and affiliates	$ 3,471,333	$ (45,904,802)

The Company's policy is to settle inter-company balances 45 days after the close of each quarter.

E. The Company has made no guarantees or undertakings for the benefit of an affiliate which may result in a material contingent exposure of the Company's or any affiliated insurer's assets.

F-G. See A-C above.

H. The Company does not own any shares of an upstream intermediate or ultimate parent, either directly or indirectly via a downstream subsidiary, controlled or affiliated company.

I. The Company does not have any individual subsidiaries which exceed 10% of its admitted assets.

J. The Company did not recognize any impairment write-down for investments in its subsidiaries during the year.

K. The Company does not own a foreign insurance subsidiary.

L. The Company does not own an investment in a downstream non-insurance holding company.

11. DEBT

None

12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

A. Defined Benefit Plans – Pension Plans

The Company sponsors two noncontributory qualified defined benefit pension plans covering substantially all of its employees. The Company also sponsors two additional nonqualified defined benefit pension plans covering certain highly compensated employees. Additionally, the Company sponsors a welfare plan that provides certain other health care benefits to substantially all retired employees, their covered dependents and beneficiaries. During the year the Company amended the terms of the post retirement medical plan. The proposed amendment, effective January 1, 2012, stipulates that the pension plan will no longer offer post-65 retiree medical coverage and retiree life insurance to active employees under the plan, whose retirement date is after January 1, 2012; unless the employee has at least 5 years of service and is over 55 years at January 1, 2012. The changes to the plan do not impact existing retirees or current active employees who retired before January 1, 2012 and met all other eligibility requirements. The impact of the change was recognized in the accompanying tables as a component of unrecognized net actuarial gain / (loss).

A combined summary of assets, obligations and assumptions of the Pension and Other Postretirement benefit plans as of December 31, 2011 and December 31, 2010 as follows:

	Pension Benefits		Post Retirement Benefits	
	2011	2010	2011	2010
(1) Change in benefit obligations:				
a. Benefit obligation at the beginning of the year	$ 1,105,562,016	$ 986,293,569	$ 63,286,243	$ 60,651,416
b. Service cost	40,946,027	35,502,678	1,128,012	1,206,220
c. Interest cost	57,282,331	56,716,085	2,653,852	3,247,835
d. Contribution by plan participants	-	-	5,192,026	4,717,169
e. Actuarial (gain) / loss	104,243,451	72,526,088	(3,484,843)	2,754,160
f. Medicare Part D reimbursement	-	-	-	-
g. Benefits paid	(55,212,840)	(49,566,735)	(10,338,320)	(9,290,557)
h. Plan amendments	-	4,090,331	(2,137,264)	-
i. Curtailments, settlements etc.	-	-	(501,461)	-
j. Benefit obligation at end of year	$ 1,252,820,985	$ 1,105,562,016	$ 55,798,245	$ 63,286,243
(2) Change in plan assets				
a. Fair value of assets at the beginning of the year	$ 912,845,910	$ 808,583,104	$ -	$ -
b. Actual return on plan assets	187,848,155	95,382,195	-	-
c. Employer contributions	63,849,762	58,447,346	5,718,847	5,701,652
d. Medicare Part D reimbursement	-	-	(572,553)	(1,128,264)
e. Plan Participants contributions	-	-	5,192,026	4,717,169
f. Benefits paid	(51,912,840)	(45,766,735)	(10,338,320)	(9,290,557)
g. Administrative Expenses	(3,300,000)	(3,800,000)	-	-
h. Fair value of plan assets at the end of the year	$ 1,109,330,987	$ 912,845,910	$ -	$ -
(3) Funded status				
a. Unamortized prior service cost	$ (337,491)	$ 301,308	$ 6,527,775	$ 5,377,434
b. Unrecognized net actuarial gain / (loss)	(227,770,677)	(274,037,469)	19,076,557	17,086,819
c. Remaining net obligation at initial date of adoption	(8,189,067)	(9,098,963)	-	-
d. Prepaid asset (accrued liabilities)	92,807,237	90,119,018	(81,402,577)	(85,750,496)
e. Funded status	$ (143,489,998)	$ (192,716,106)	$ (55,798,245)	$ (63,286,243)
(4) Accumulated benefit obligation	$ 1,197,656,033	$ 1,053,904,510	$ -	$ -
(5) Benefit obligation for non-vested employees				
a. Projected Benefit Obligation	$ 24,256,086	$ 21,786,431	$ 229,097	$ 8,434,923
b. Accumulated Benefit Obligation	$ 14,420,615	$ 13,240,976	$ N/A	$ N/A
(6) Components of net periodic benefit costs				
a. Service cost	$ 40,946,027	$ 35,502,678	$ 1,128,012	$ 1,206,220
b. Interest cost	57,282,331	56,716,085	2,653,852	3,247,835
c. Expected return on plan assets	(55,867,266)	(54,591,931)	-	-
d. Amortization of unrecognized transition (asset) / liability	909,896	654,811	-	-
e. Amounts of recognized (gains) / losses	18,529,354	17,117,017	(1,495,105)	(1,450,916)
f. Amount of prior service cost recognized	(638,799)	2,995,551	(986,923)	(917,443)
g. Amount of gain or loss recognized due to settlement or curtailment	-	-	(501,461)	-
h. Total net periodic benefit cost	$ 61,161,543	$ 58,394,211	$ 798,375	$ 2,085,696

(7) During 2011, the Company recognized an additional minimum pension liability of $20,447,862. Accordingly, the Company recognized a change in additional minimum pension liability of $46,737,693 as a credit against unassigned funds.

(8) The weighted-average assumptions used to determine net periodic cost as of December 31:

	2011	2010
Defined benefit pension plan		
a. Discount rate	5.10%	5.70%
b. Rate of compensation increase	4.80%	4.00%
c. Expected long-term rate of return on plan assets	6.20%	7.00%
Other post-retirement plan		
a. Discount rate	4.67%	5.50%

The weighted-average assumptions used to determine projected benefit obligation as of December 31:

	2011	2010
Defined benefit pension plan		
a. Discount rate	4.30%	5.10%
b. Rate of compensation increase	4.70%	4.80%
c. Expected long-term rate of return on plan assets	4.30%	6.20%
Other post-retirement plan		
a. Discount rate	3.90%	4.90%

(9) The measurement date used to determine defined benefit pension and other post-retirement benefit measurements was December 31, 2011.

(10) For measuring other post-retirement benefit obligations, a 7.3% annual rate increase in the per capita cost of covered health care medical and dental benefits was assumed for both pre-age 65 and post-age 65 participants, respectively. As of December 31, 2011, the rate was assumed to decrease gradually to 4.5% in 2029 and remain at that level thereafter. Additionally, an 8.6% annual rate increase in the per capita cost of covered drug benefits was assumed as of December 31, 2011, decreasing gradually to 4.5% in 2029 and remaining at that level thereafter. Furthermore, 7.6% annual rate increase in the per capita cost of covered Medicare Part D benefits was assumed. The rate was assumed to decrease gradually to 4.5% in 2029 and remain at that level thereafter.

(11) A one percentage-point change in the assumed health care cost trend rates would have the following effects as of December 31, 2011:

	1 Percentage Point Increase	1 Percentage Point Decrease
a. Effect on total of service and interest cost components	$ 72,752	$ (64,188)
b. Effect on accumulated post-retirement benefit obligation	$ 3,424,350	$ (3,033,156)

(12) a. The target and actual asset allocation for the plans' assets as of the measurement date, by asset category, is as follows:

Asset Category	Target Allocation	Percentage of Plan Assets 2011	Percentage of Plan Assets 2010
Pension Plan:			
Equity securities	30% - 70%	22.8%	32.7%
Fixed Income securities	30% - 70%	76.7%	67.2%
Cash and short-term investments	minimum of 2%	0.5%	0.1%
Total		100.0%	100.0%

None of the assets of the Plan were invested in the securities of the Company, any upstream intermediate parent, or the ultimate parent of the Company. There were also no related party transactions between the Company and the plans during 2011.

The Company's funding policy is to contribute amounts to its plans sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, and Pension Protection Act of 2006, plus such additional amounts as deemed appropriate. As of December 31, 2011 and 2010, the Company has pre-funded $155,967,205 and $149,244,284, respectively, into the Company's qualified pension plans. Such amounts were recorded as non-admitted assets in the accompanying combined statutory financial statements as of December 31, 2011 and 2010.

b. The investment objective of the plan is to maximize the return on the assets over a long-term time horizon, while ensuring the plan is able to meet its current and future obligations to plan participants. To achieve this objective, the Company has established investment guidelines and asset allocation strategies designed to achieve expected returns while limiting the volatility associated with different investment strategies. The Company's policy is to provide for growth of capital with a moderate level of volatility by investing in assets per the target allocations indicated above. The Company invests in traditional securities such as publicly traded securities as well as dollar denominated non-U.S. and global equity securities. The investment guidelines are reviewed on an annual basis and the assets are reallocated as needed by the investment fund manager to meet the stated target allocations.

c. The Company's expected long-term rate of return is 4.3% as of December 31, 2011 for the pension plan assets and is based on the expected total return of all the investment categories. The expected long-term rate of return is expected to be achieved over time based on the objectives of the investment guidelines to obtain total rates of return, including capital appreciation and income, that exceed the established benchmark indices for the equity and fixed income portfolios.

The actual investment performance is compared to market benchmarks and indices on a monthly basis. Equity securities are expected to return 6.48% over the long term, while cash and fixed income securities are expected to return between 2.88% and 4.28%.

(13) The expected benefits to be paid out of the qualified pension plans and post-retirement plans during each of the next five fiscal years and in aggregate for the five fiscal years thereafter are as follows:

Year-Ending December 31,	Expected payouts Qualified Pension plans	Expected payouts Post-retirement plans
2012	$ 60,953,374	$ 5,526,061
2013	64,221,240	5,390,362
2014	67,948,190	5,226,921
2015	71,794,643	5,045,337
2016	75,712,714	4,867,105
2017 and thereafter	438,431,039	20,224,351
Total	$ 779,061,200	$ 46,280,137

(14) Based upon current actuarial assumptions, the Company expects to contribute $3.8 million to the plans during the next fiscal year.

(15-19) None

B. Defined Contribution Plan

The Company contributes 100% of the first 6% of the employee's elective salary deferral. The Company's contribution to the plan was $41.3 million and $40.8 million for years ended December 31, 2011 and 2010, respectively. The fair value of the Company's plan assets was $1,325.7 million and $1,310.3 million as of December 31, 2011 and 2010, respectively.

C. Multi-employer Plans

None

D. Holding Company Plan

None

E. Post employment Benefits and Compensated Absences

None

F. Impact of Medicare Modernization Act on Postretirement Benefits

(1) Recognition of the Existence of the Act

Refer to (2) below

(2) Effects of the Subsidy in Measuring the Net Postretirement Benefit Cost

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law in December of 2003. The Act includes the following two new features to Medicare Part D that could affect the measurement of the accumulated postretirement benefit obligation (APBO) and net periodic postretirement cost for the Plan:

- A federal subsidy (based on 28% of an individual beneficiary's annual prescription drug costs between $250 to $5,000), which is not taxable, to sponsors of retiree healthcare benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to Medicare Part D; and

- The opportunity for a retiree to obtain a prescription drug benefit under Medicare.

The effect of the Act was a $2,238,162 reduction in the Company's net postretirement benefit cost for the subsidy related to benefits attributed to former employees. The Act also had the following effects on the net postretirement benefit cost; a $725,145 increase as a result of an actuarial gain; a decrease to the current service period cost $639,997 due to the subsidy; an $33,328 decrease due to the amortization of prior service cost; and a $906,348 decrease to the interest cost.

(3) Disclosure of Gross Benefit Payments

The Company's gross benefit payments for 2011 were $10.9 million including the prescription drug benefit and estimates future payments to be $5.8 million annually. The Company's subsidy related to The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was $0.6 million for 2011 and estimates future subsidies to be $1.2 million annually.

13. **CAPITAL AND SURPLUS, DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATIONS**

(1) The Company has 5,000 shares authorized, issued and outstanding, with a par value per share of $1,000.00.

(2) The Company has no preferred stock outstanding.

(3) The maximum amount of dividends which can be paid to shareholders by insurance companies domiciled in the State of New York without prior approval of regulatory authorities is restricted if such dividend, together with other distributions during the twelve preceding months, would exceed the lesser of ten percent of surplus as regards policyholders as shown by its last statement on file with the Director of Insurance (Director), or 100% of adjusted net investment income during such period. If the limitation is exceeded, then such proposed dividend must be reported to the Director at least 30 days prior to the proposed payment date and may be paid only if not disapproved. New York insurance laws also permit payment of dividends only out of earned surplus, exclusive of unrealized appreciation of assets. As a further condition, ZAIC has agreed not to pay shareholders dividends without the New York Insurance Department's approval from January 1, 2012 through December 31, 2013 in an amount which exceeds the lesser of: (A) the dividends permitted under Section 4105 of the New York Insurance Law ("NYIL"), (B) the net income of ZAIC for the twelve months immediately preceding the most recent financial statement filing date, less dividends paid during the twelve months preceding the dividend payment date, and (C) ten percent of "adjusted surplus" as of the most recent financial statement filing date less dividends paid during the twelve months preceding the dividend payment date. "Adjusted surplus" shall mean "surplus" as defined in Section 4105 of the NYIL, less the dollar amount of the following items, in each case, calculated as the most recently filed statutory financial statement: (i) Investment in surplus notes issued by the Farmers and Truck Insurance Exchanges; (ii) Common stock of ZAIC affiliates; (iii) fifty percent of the Schedule BA assets less amounts included in item (i) above; (iv) and

Net deferred tax asset. As of December 31, 2011, the maximum amount of dividends which can be paid by the Company without prior approval is $0.

(4) During 2011, the Company paid ordinary cash dividends totaling $740,000,000 to its parent Zurich Holding Company of America, Inc. as follows:

Date	Amount
March 17	$ 310,000,000
June 20	275,000,000
September 9	45,000,000
December 15	110,000,000
	$ 740,000,000

(5) Refer to (3) above.

(6) A special surplus fund has been established for a deferred gain on retroactive reinsurance and deferred tax assets resulting from the application of SSAP 10R. Changes in balances of special surplus funds from the prior year are as follows:

	Deferred Tax Assets	Gain on Retroactive Reinsurance	Total
Balance as of December 31, 2010	$ 321,550,097	$ 96,392,000	$ 417,942,097
Paid losses reimbursed or recovered	0	0	0
Cash payments	0	0	-
Adjustments	19,344,340	(40,848,000)	(21,503,660)
Balance as of December 31, 2011	$ 340,894,437	$ 55,544,000	$ 396,438,437

(7) Not applicable.

(8) No stock is held for special purposes.

(9) The reduction in restricted surplus on deferred tax assets results from application of provisions of SSAP 10R paragraph 10 (e). Additionally, gains on insurance contracts deemed to be retroactive are adjusted due to underwriting activity on those contracts.

(10) The Company's surplus has $209,454,958 of cumulative net unrealized gains embedded as a component of surplus as of December 31, 2011.

(11) Surplus Notes

The Company has issued the following surplus notes to its parent, ZHCA in exchange for cash as of December 31, 2011:

Note Number	Date Issued	Interest Rate	Maturity Date	Par Value & Carrying Value	Principal and/or Interest Paid in 2011	Inception-to-date Principal and/or Interest Paid	Accrued Interest as of 12/31/11	Unapproved Interest Payable as of 12/31/11
1	9/30/2002	5.75%	None	$ 453,000,000	$ 26,047,500	$ 240,939,375	$ 0	$ 0
2	12/31/2002	5.25%	None	80,000,000	4,200,000	37,835,000	0	0
3	12/29/2003	5.00%	None	350,000,000	17,500,000	138,937,500	0	0
4	12/22/2004	6.00%	None	0	689,000,000	1,387,166,667	0	975,000
				$ 883,000,000	$ 736,747,500	$ 1,804,878,542	$ 0	$ 975,000

Interest on Surplus Notes is payable semi-annually on June 30 and December 31 of each year.

Each payment of interest and repayment of principal of the surplus notes may be made only with the prior approval of the Superintendent of the New York Insurance Department. Repayment can only be paid out of any free and divisible surplus of the Company. During 2011, the Superintendent approved payment of interest up through December 31, 2011 on surplus notes #1 through #3 and through December 21, 2011 on surplus note #4. The amount of the interest paid was $86,747,500. The remainder of the interest payments due require the approval from the Superintendent under the terms of the surplus notes.

On December 31, 2011, the Company repaid principal of $650,000,000 on Surplus Note 4, which was approved by the New York Department of Insurance. Interest of 9 days in the amount of $975,000 remains outstanding pending approval by the New York Insurance Department as the interest was paid up to December 21, 2011.

In the event of the liquidation of the Company, the repayment of the surplus notes principal and interest can only be paid out of any remaining assets of the Company after the payment of all policyholder obligations and all other liabilities but before the distribution of assets to stockholders.

(12) Quasi re-organization

None

(13) Effective date of quasi re-organization

None

14. **CONTINGENCIES**

A. Contingent Commitments

The Company does not have any contingent commitments as of December 31, 2011.

B. Assessments

(1)

The Company is contingently liable for any current and future guaranty fund assessments related to insolvencies of unaffiliated companies during 2011 and prior. The Company's financial statements include provisions for estimated future amounts (net of estimated future premium tax recoveries) that the Company believes it will be assessed in the future.

The Company has received notification of insolvency of the following insurance companies: Constitutional Casualty Company, Aequicap Insurance Company, Seminole Casualty Insurance Company, Western Insurance Group, National Group Insurance Company, HomeWise Insurance Company and Southern Eagle Insurance Company. It is expected that the insolvencies will result in a guaranty fund assessment against the Company at some future date. At this time, the Company is unable to estimate the possible amounts, if any, of such assessments.

As of December 31, 2011, the Company has accrued a liability of $14,947,618 for future estimated assessments and has also recorded a receivable for future premium tax offsets related to such assessments of $10,207,859. In addition, the Company maintains a receivable for future premium tax offsets in relation to previous assessments paid of $10,503,196 which is anticipated to be recovered in future years.

The Company has also established a recoverable for surcharges related to assessments for hurricanes in Florida and Louisiana and guarantee fund assessments in California and New Jersey of $36,399,936, which are anticipated to be recovered from policyholders during 2012 and early 2013.

The Company has established a liability for premium and loss based assessments of $204,324,902 as of December 31, 2011. The Company has also recorded a payable for other assessments of $40,616,518 due to various state agencies.

(2)

		Amount
a. Assets recognized from paid and accrued premium tax offsets and policy surcharges - prior year-end	$	59,283,941
b. Decreases during current year:		
Policy surcharges collected		37,642,660
Policy surcharges charged off		71,414
Premium tax offset applied		31,634,152
Premium tax offset accrual change		(182,762)
	$	69,165,464
c. Increases during current year:		
Policy surcharges payments		31,341,759
Policy surcharges charged in		6,476,818
Premium tax offset established		29,173,937
	$	66,992,514
d. Assets recognized from paid and accrued premium tax offsets and policy surcharges - current year-end	$	57,110,991

C. Gain Contingencies

The Company has not recognized any gain contingencies.

D. Claims Related to Extra-contractual Obligations

The Company paid $12,046,351 during 2011 to settle claims related to extra-contractual obligations or bad faith claims stemming from lawsuits.

The amount above is broken down as follows:

Direct	$	12,046,763
Assumed		0
Ceded		412
Net	$	12,046,351

The number of claims where amounts were paid to settle claims related to extra-contractual obligations or bad faith claims resulting from lawsuits during the reporting period are disclosed as follows:

	Number of Claims	Claim Count Information
a)	0-25	
b)	26-50	
c)	51-100	
d)	101-500	X
e)	More than 500	
f)	Per claim	X
g)	Per claimant	

E. Product Warranties

None

F. (1) Investigations and Lawsuits Concerning Insurance Brokerage Practices

Commencing in August 2004, the Office of the New York Attorney General issued several subpoenas to ZAIC and certain of its insurance subsidiaries relating to certain business practices involving insurance brokers. In addition, a number of state attorneys general and state insurance departments issued subpoenas to ZAIC and certain of its insurance subsidiaries for information related to broker activities.

On March 27, 2006, ZAIC and Zurich Holding Company of America, Inc. (ZHCA) reached a settlement agreement with the Offices of the Attorneys General of the States of New York, Connecticut, and Illinois and, in a separate agreement, the New York Department of Insurance (collectively, the “Three-State Agreement”) relating to their industry-wide investigations into broker compensation and insurance placement practices and non-traditional products and finite risk and insurance/reinsurance. The Three-State Agreement called for the payment of approximately $88 million in restitution to excess casualty policyholders and $65 million in fines and imposes certain business reforms and disclosure requirements and certain limitations on the payment of contingent commissions. ZAIC and ZHCA did not admit to any violation of U.S. federal or state laws as part of the Three-State Agreement. According to the terms of the Three-State Agreement, ZHCA made a $88 million capital contribution to ZAIC on May 4, 2006 and ZAIC paid $88 million as part of the settlement. On May 8, 2006, ZHCA paid $65 million in fines as required by the Three-State Agreement. On December 13, 2010, the Three-State Agreement was amended to eliminate restrictions on the kinds of compensation that Zurich may pay to insurance producers, including contingent commissions.

Also, beginning on March 20, 2006, ZAIC reached a settlement agreement with ten additional state attorneys general, including the state attorneys general of Florida and Texas and one insurance commissioner (the “Multi-State Agreement”) relating to their industry-wide investigations into broker compensation and insurance placement practices and “non-traditional” products and finite insurance/reinsurance. Also beginning on March 20, 2006, ZAIC reached settlement agreements with fifteen insurance commissioners, including the insurance commissioners of California and Illinois (the “Regulatory Agreement”), subsequently amended, relating to their industry-wide investigations into broker compensation and insurance placement practices. As part of these settlement agreements, ZAIC agreed to certain business reforms and disclosure requirements and certain limitations on the payment of contingent commissions. As part of the implementation of the business reforms under the Multi-State Agreement, certain settling state attorneys general instituted actions for entry of orders and stipulated injunctions, and subsequently for entry of amended orders and stipulated injunctions. In addition, as discussed below, under the Multi-State Agreement, ZAIC agreed to a $51.7 million settlement fund that was distributed through a separate settlement agreement entered into in the consolidated class action proceeding (*In re Insurance Brokerage Antitrust Litigation*, Civil No. 04-5184 (D.N.J.)). The Multi-State Agreement also required ZAIC to pay $20 million for the states’ fees and costs. The Regulatory Agreement did not require the payment of any money. ZAIC did not admit to any violation of U.S. federal or state laws as part of these settlement agreements with state attorneys general and insurance commissioners.

On October 25, 2006, ZAIC entered into a settlement with the Ohio Attorney General and Ohio Department of Insurance that resolves their investigations of ZAIC's broker compensation and insurance placement practices and, in addition, resolves the Ohio Attorney General's investigation into "non-traditional" products and finite insurance/reinsurance. ZAIC agreed to pay the Ohio Attorney General the sum of $6 million, which amount comprises a civil penalty of $4 million and reimbursement of attorneys' fees and investigative costs of $2 million. ZAIC agreed to pay the Ohio Department of Insurance a civil penalty of $1 million. The business reforms agreed to in the settlement are similar to the ones agreed to in the Multi-State and Three-State Agreements. ZAIC did not admit to any violation of U.S. federal or state laws as part of this settlement agreement.

On December 4, 2006, ZAIC entered into separate settlement agreements with the attorneys general of the District of Columbia and the State of Michigan that resolved their investigations into bid-rigging and incentive compensation agreements and "non-traditional" products and finite insurance/reinsurance. The business reforms agreed to in these settlements are the same as those agreed to in the Multi-State Agreement. These settlements did not require the payment of any money. ZAIC did not admit to any violation of U.S. federal or state laws as part of these settlement agreements.

A number of lawsuits were filed by private parties against Zurich Financial Services Ltd. and certain of its subsidiaries arising out of the foregoing regulatory investigations. Certain class action lawsuits filed in different federal courts against ZAIC were consolidated into one action before the United States District Court for the District of New Jersey under the caption In re Insurance Brokerage Antitrust Litigation, Civil No. 04-5184 (the “Consolidated Class Action”). The First and Second Consolidated Amended Commercial Class Action Complaint in that action (“Consolidated Complaint”) named Zurich Financial Services Ltd. and various subsidiaries as defendants (among other insurers and insurance brokers) and alleged that these defendants were involved in a contingent commission and bid-rigging scheme. The Consolidated Complaint alleged breach of fiduciary duties, aiding and abetting breach of fiduciary duties, unjust enrichment, violations of state and federal antitrust laws and Racketeer Influenced and Corrupt Organizations Act (“RICO”) and sought unspecified compensatory damages plus punitive damages, injunctive relief and attorneys’ fees and costs. The class period alleged in the Consolidated Complaint began on August 26, 1994 and purported to continue to the date of any class certification.

On July 28, 2006, and as amended on August 28, 2006, Zurich Financial Services Ltd. and certain of its subsidiaries entered into a settlement agreement with plaintiffs in the Consolidated Class Action pursuant to which Zurich agreed to settle the claims made in the litigation (the “Class Action Settlement”). The settlement, in conjunction with the Multi-State Agreement, provided for a settlement fund of $121.8 million to be distributed to settlement class members (ZAIC had funded $70.1 million under the Class Action Settlement and $51.7 million under Multi-State Agreement in the same Class Action Escrow Account, totaling $121.8 million). On February 16, 2007, the Court approved as final the Class Action Settlement. Over 1,000 current and former policyholders formally requested to be excluded as members of the settlement class. Several objectors filed notices of appeal of the Class Action Settlement before the United States Court of Appeals for the Third Circuit. On September 8, 2009, the Third Circuit affirmed the District Court's approval of the Class Action Settlement. The Class Action Settlement is now final. The settlement funds have been distributed. The Zurich defendants did not admit to any violation of U.S. federal or state laws as part of the Class Action Settlement.

Claims relating to the conduct alleged in the Consolidated Class Action have been asserted (and might be asserted in the future) in other cases, including the following:

a. ZAIC and certain of its subsidiaries and Zurich Specialties London have been named as defendants (among other insurers and insurance brokers) in a suit filed on or about April 4, 2006 by some 18 (later to be reduced to 10) corporate purchasers of insurance in the United States District Court for the District of Georgia under the caption *New Cingular Wireless Headquarters, LLC, v. Marsh & McLennan Cos, Inc.*, Civil No. 06 CV-0796 (N.D. Ga.). The complaint alleges that these defendants were involved in bid-rigging and a contingent commission payment scheme in violation of the federal antitrust laws and RICO, as well as state-law claims of inducement to breach fiduciary duty, unjust enrichment, common-law fraud, and statutory and consumer fraud. The complaint seeks unspecified compensatory and punitive damages and attorneys' fees and costs. On October 16, 2006, the Judicial Panel on Multidistrict Litigation transferred the case to the District of New Jersey for coordinated or consolidated pre-trial proceedings with the Consolidated Class Action. The plaintiffs have requested to be excluded as members of the Class Action Settlement.

b. ZAIC and certain of its subsidiaries have also been named as defendants (among other insurers and insurance brokers) in a suit filed on or about February 15, 2007, by a corporate purchaser of insurance in the United States District Court for the District of New Jersey under the caption *Avery Dennison Corp. v. Marsh & McLennan Cos, Inc.*, Civil No. 07-0757 (D.N.J.). The complaint alleges that the insurance company defendants were involved in a bid-rigging and contingent commission payment scheme in a violation of the federal antitrust laws and California's unfair trade practices act. The complaint seeks treble and punitive damages, restitution, unspecified compensatory damages, injunctive relief, prejudgment interest, and attorneys' fees and costs. The complaint contains additional allegations against the insurance broker defendants. On or about March 6, 2007, the case was consolidated with the Consolidated Class Action. The plaintiff has formally requested to be excluded as a member of the Class Action Settlement.

c. On or about January 2005, a state-wide Massachusetts putative class action suit entitled *Van Emden Mgmt. Corp. v. Marsh & McLennan Cos., Inc., et al.*, was served on Steadfast Insurance Company, a ZAIC subsidiary, alleging a bid-rigging and a contingent commission payment scheme in violation of state antitrust law, breach of fiduciary duty and state conspiracy laws. The complaint seeks unspecified damages, treble damages, injunctive relief and attorneys' fees. By order dated September 19, 2005, the proceeding is currently stayed pending further order of the court. The plaintiff has excluded itself from the Class Action Settlement.

d. On or about October 31, 2007, an amended complaint was filed in an individual action (not a class action) pending in Texas state court that named ZAIC, American Guarantee and Liability Insurance Company, Steadfast Insurance Company, Zurich North America, and Zurich Insurance Company LTD. as defendants under the caption *RSR Corp., Inc. v. Marsh, et al.* Service of the amended complaint was not accepted on behalf of Zurich Insurance Company Ltd. and Zurich North America. The complaint, as amended, alleges violations of state antitrust law, aiding and abetting fraud and breaches of fiduciary duties, and civil conspiracy, as well as additional claims against the broker defendant for breach of contract, breach of fiduciary duty, and fraud. The complaint seeks unspecified compensatory damages, treble and punitive damages, disgorgement, prejudgment, prejudgment interest, forfeiture of payments and attorneys' fees and costs. The plaintiff has excluded itself from the Class Action Settlement.

It is possible that additional actions could be filed against ZAIC and its subsidiaries arising out of the investigations concerning certain business practices involving insurance brokers. At this time, ZAIC is unable to predict the potential effects, if any, that the pending cases related to the investigations and related actions may have upon its operations, its financial position, the insurance and reinsurance markets and industry business practices or what, if any, changes may be made to laws and regulations regarding the industry. ZAIC believes that the ultimate liability for the matters referred to above is not likely to have a material adverse effect on ZAIC's and the Pool's combined statutory financial position, however, it is possible the effect could be material to the results of operations for an individual future reporting period.

(2) Other Lawsuits

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company, et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action. In addition to ZAIC and three of its insurance company subsidiaries, Zurich Insurance Company Ltd ("ZIC") and Orange Stone Reinsurance Dublin ("Orange Stone") are named as defendants. Plaintiffs, who are historic policyholders of the Home Insurance Company ("Home"), plead claims for fradulent transfer, alter ego liability and unfair business practices relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. Plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this forced Home into liquidation. Plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses. The trial commenced on November 1, 2010, and trial testimony has now concluded. Closing arguments are scheduled for February 2012.

A similar action entitled A.P.I. Inc. Asbestos Settlement Trust, et al. v. Zurich American Insurance Company, et al., was filed in March 2009 in the District Court for the Second Judicial District, County of Ramsey, Minnesota. ZAIC and two of its insurance company subsidiaries were named as defendants (the "Original Defendants"). The Original Defendants removed the case to the U. S. District Court for the District of Minnesota, where it is now pending. The plaintiffs subsequently amended their complaint to add ZIC, Orange Stone, and two additional ZAIC subsidiaries as defendants (the "Newly-Added Defendants"). As in the Fuller-Austin cases, plaintiffs allege that A.P.I. Inc. is an insured under policies issued by Home, primarily in the 1970s. The complaint seeks to hold defendants liable for Home's policy obligations under various theories of vicarious liability tied to the recapitalization of Home and it also alleges that defendants are liable for damages under theories of fraudulent transfer and tortious interference with contract.

Prior to the filing of the amended complaint, the Original Defendants moved to dismiss the case. After the amended complaint was filed, all defendants, including the Newly-Added Defendants, moved again to dismiss the amended compalint. On March 31, 2010, the court ruled on the original dismissal motion, and dismissed plaintiffs' claims against the Original Defendants under theories of fradulent transfer and tortious interference with contractual relations, as well as a consumer fraud claim. On September 30, 2010, the court ruled on the motion to dismiss the amended complaint, and dismissed plaintiffs claims against all defendants under theories of fradulent transfer and tortious interference, as well as a consumer fraud claim. The motion – consistent with the court's March 31, 2010 ruling – was denied as to the remaining claims, as the court found that plaintiffs vicarious liability theories could not be disposed of on a motion to dismiss. Pretrial discovery is complete. Summary judgment motions were filed by plaintiffs and defendants on July 1, 2011, and oral argument on the motions was heard on November 22, 2011. The judge took the motions under advisement. If the case is not decided on summary judgment, a trial will follow. The Group maintains that the Fuller-Austin and A.P.I. Inc. cases are without merit and intends to continue to defend itself vigorously.

Various other lawsuits against the Company have arisen in the ordinary course of the Company's business. Contingent liablities arising from such litigation, income tax and other matters are not considered material to the Company's results of operations, financial position, established reserves and anticipated insurance and reinsurance recoverables.

15. **LEASES**

A. Lessee Operating Leases

(1) The Company leases some of its office space and data processing equipment under various non-cancelable operating lease agreements that expire through December 2022. Rent expense for office space under operating leases and sub-leases was $57,489,850 and $57,079,316 for 2011 and 2010, respectively. Rent expense for data processing equipment was $3,748,550 and $4,332,411 for 2011 and 2010, respectively.

(2) At January 1, 2012, the minimum aggregate rental commitments for the next 6 years and in total are as follows:

Year-Ending December 31,	Operating Lease
2012	$ 73,168,960
2013	65,462,156
2014	56,299,302
2015	53,950,845
2016	50,818,494
2017 and thereafter	66,844,456
Total	$ 366,544,213

(3) The Company is not involved in any material sale-leaseback transactions.

16. **INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK**

None

17. **SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES**

A. The Company did not transfer or sell any of its receivables during 2011.

B. The Company participates in a securities lending program whereby certain securities were loaned to third parties, primarily major brokerage firms. Securities loaned as of December 31, 2011 were comprised of US Treasury, US government agency and corporate fixed income securities. The fair values are obtained from publicly available quoted market pricing of securities at December 31, 2011 as provided by BNY Mellon, our securities lending agent. In accordance with the agreement with the custodian bank facilitating such lending, collateral with a fair value of at least equal to 102% of the fair value of the loaned securities is required when securities are loaned and additional collateral is required if the fair value of the collateral drops below 100% during the term of the loan. To further minimize the credit risks related to this lending program, the Company monitors the financial condition of counterparties to these agreements. Collateral, which is not restricted as the Company has control over the investment of the collateral and is liable for the decline in the value of the invested collateral, was held by the custodian bank as collateral at December 31, 2011. Collateral is recorded as an asset on page 2, line 10 and a liability on page 3, line 22. As of December 31, 2011, the amounts concerning the securities lending program in which the Company is involved are as follows:

	Securities Lending Amounts
Fair Value of Reinvested Collateral	$ 120,821,061
Securities Lending Collateral Liability	$ 120,821,061
Fair Value of Securities Loaned	$ 118,017,842

C. The Company does not have any wash sales.

18. **GAIN OR LOSS TO THE REPORTING ENTITY FROM UNISURED A&H PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS**

None

19. **DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATORS**

None

20. **FAIR VALUE MEASUREMENTS**

A. Inputs used for Assets Measured at Fair Value

(1) Fair Value Measurements by Levels 1, 2 and 3

The Company has categorized its assets that are measured at fair value into the three-level fair value hierarchy as reflected in the table below.

Level 1 – Securities that fall into this category are liquid investments traded in active markets and valued based on unadjusted quoted prices. Assets in this category are preferred and common stock securities.

Level 2 - Securities that fall into this category are bonds, preferred stocks and common stocks which are not exchange traded. These securities are valued based upon models with observable inputs - for example market interest rates, credit spreads etc. Fair value for these securities have been determined by independent pricing services using observable inputs.

Level 3 – Securities that fall into this category are investments valued based upon models with "significant" non-observable inputs (assumptions). Such assumptions can be about loss severities, prepayment speed, interest rate volatilities, earnings forecast, comparable sales etc.

Assets Measured at Fair Value on a Recurring Basis

(1) Description	(2) Level 1	(3) Level 2	(4) Level 3	(5) Total
Bonds	$ -	$ 70,192,045	$ 132,229,439	$ 202,421,484
Common Stock	470,894,880	203,586,479	-	674,481,359
Real Estate Joint Venture Interest - Unaffiliated	-	-	356,379,235	356,379,235
Other Joint-Venture Interest - Unaffiliated	-	-	774,987,152	774,987,152
Total Assets at Fair Value	$ 470,894,880	$ 273,778,524	$ 1,263,595,826	$ 2,008,269,230

(2) Roll forward of Level 3

(1) Description	(2) Beginning Balance at 01/01/2011	(3) Transfer into level 3	(4) Transfer out of level 3	(5) Total Gains and (Losses) included in Net Income	(6) Total Gains and (Losses) included in Surplus	(7) Purchases	(8) Issuances	(9) Sales	(10) Settlements	(11) Ending Balance at 12/31/2011
Assets:										
Loan-Backed and Structured Securities										
Residential mortgage backed securities	$ 269,762,406	$ 2,619,443	$ (64,029,410)	$ (11,996,200)	$ 3,809,425	$ 8,516	$ -	$ (100,031,979)	$ -	$ 100,142,201
Commercial mortgage backed securities	69,454,848	-	(6,414,742)	(1,388,513)	(418,689)	-	-	(30,718,672)	-	30,514,232
Other fund Investments										
Asset-backed securities	23,620,771	-	(22,169,570)	(5,891,737)	6,013,542	-	-	-	-	1,573,006
Real Estate Joint Venture Interest - Unaffiliated	337,722,493		(6,511,651)	(39,543,917)	73,938,551	50,731,650		(59,957,891)		356,379,235
Other Joint-Venture Interest - Unaffiliated	794,897,904	-	-	25,081,343	(2,374,151)	82,052,790	-	(124,670,734)	-	774,987,152
Total	$ 1,495,458,422	$ 2,619,443	$ (99,125,373)	$ (33,739,024)	$ 80,968,678	$ 132,792,956	$ -	$ (315,379,276)	$ -	$ 1,263,595,826

(3) Policy on Transfers In and Out of Level 3

At the end of each reporting period, the Company evaluates whether or not any event has occurred or circumstances have changed that would cause an investment to be transferred in or out of Level 3.

(4) Inputs and Techniques Used for Level 2 and Level 3 Fair Values

Bonds carried at fair value categorized as Level 2 were valued using a market approach. These valuations were determined to be Level 2 as either quoted markets prices for similar instruments in an active market or model-based valuations in which all significant inputs are observable in the market were utilized. This was accomplished by the use of matrix pricing. Matrix pricing takes quoted prices of bonds with similar features that are inputs into the analysis including duration, credit quality, tax status and call and sinking fund features.

Common stocks carried at fair value categorized as Level 2 were valued using a market approach. These valuations were determined to be Level 2 valuations because quoted markets prices for identical instruments trading in an inactive market were utilized. When an equity instrument is illiquid due to limited trading activity, the use of quoted markets prices for identical instruments was determined by the Company to be the most reliable method to determine fair value.

Bonds carried at fair value categorized as Level 3 were valued using unobservable inputs. These unobservable inputs reflects our own assumptions about the criteria that market participants would use in pricing these assets (including assumptions about risk). These assumptions were based on the best information available under the circumstances.

Real Estate Joint Ventures fair value is calculated by the real estate joint venture General Partner(s) using a number of methodologies, which include but are not limited to, discounted cash flow analysis, capitalization of current or stabilized net operating income, replacement costs, and recent sales comparable in the market. The General Partner(s) also takes into consideration the financial condition and operating results of the investment, the nature of the investment, market information and other factors he/she seems appropriate. Due to the considerable judgment that is required in determining the fair value, amounts ultimately realized from each investment may vary significantly from the fair values presented.

Other Joint Ventures fair value is provided by the Fund Manager and/or their Fund Administrator and is generally based on quoted market prices. If quoted market prices are not available, fair value is determined based on other relevant factors including, but not limited to, dealer price quotation, price activity for equivalent instruments and valuation pricing models.

21. **OTHER ITEMS**

A. Extra-ordinary Items

None

B. Trouble debt restructuring

None

C. Assets with a statement value of $2,192,715,694 and $1,938,117,357 at December 31, 2011 and 2010, respectively, were on deposit with government authorities or trustees as required by law.

D. Uncollectible balances per SSAP No. 6, SSAP No. 47 and SSAP No. 66.

The Company has analyzed Premiums and Considerations receivable (Pg 2, Lines 15.1-15.3) to determine balances that are reasonably possible to be uncollectible. Based on past experiences and circumstances specific to insureds/reinsurers, the Company has non-admitted $167.9 million of its premiums and considerations receivable. This amount is less than 0.5% of the Company's premiums and considerations balance.

E. Business Interruption Insurance Recoveries

None

F. State Transferable Tax Credits

None

G. Subprime Mortgage Related Risk Exposure

(1) A review was performed of the investment portfolio at December 31, 2011 to determine whether the Company has exposure to subprime mortgage risk. The Company defines subprime mortgages as transactions/securitizations backed primarily by mortgage loans to borrowers with a) a tarnished credit history as evidenced by a Fair Isaac Company (FICO) score of 660 or lower, or b) a debt-to-income ratio of 40% or more or c) a loan margin of 4% or higher. The Company does not have direct exposure to subprime risk through investments in subprime mortgage loans.

(2) Direct Exposure - Subprime Mortgage Loans

None

(3) Direct Exposure - Other Investments

Type	Actual Cost	Book/Adjusted Carrying Value	Fair Value	Other-than-temporary impairment loss
Residential mortgage backed securities	$ 42,207,063	$ 42,069,179	$ 31,215,265	$ (31,145,097)
	$ 42,207,063	$ 42,069,179	$ 31,215,265	$ (31,145,097)

(4) Underwriting Exposure

None

22. **EVENTS SUBSEQUENT**

Beginning on January 1, 2012 Empire Indemnity Insurance Company (EIIC) will cede business directly to the Pool. This is a result of the termination on December 31, 2011 of the quota share reinsurance agreement between EIIC and Empire Fire and Marine Insurance Company (EFM), whereby EIIC ceded 100% of its direct business to EFM.

In June 2008, Truck Insurance Exchange (“Truck”) received regulatory approval to enter into an Access Rights Agreement (“Access Agreement”) under which four affiliates of the Company – American Zurich Insurance Company, Assurance Company of America, Maryland Casualty Company and Northern Insurance Company of New York (collectively referred to as “Transferors”) – sold and transferred to Truck all their rights to renew or replace certain commercial business insurance policies issued by the Transferors in connection with the Zurich Small Business Unit (“SBS Business). Pursuant to the Access Rights Agreement, Truck has the right to offer, either directly or through its affiliates, replacement policies for the SBS Business issued by the Transferors.

In conjunction with the Access Agreement, Truck also entered into a 100% Quota Share Reinsurance Agreement with the Transferors, under which Truck assumed from the Transferors, and reinsured on an indemnity basis, all liability, including policy losses, arising on or after June 1, 2008 in the conduct of the SBS Business together with all unearned premium as of June 1, 2008 and net written premium for subsequent periods on that business. Additionally, the Transferors continue to provide certain administrative services in connection with the SBS Business on and after June 1, 2008 for which Truck reimburses the Transferors for actual costs of providing those services.

Effective January 1, 2011, the 100% Quota Share Reinsurance Agreement between Truck and the Transferors was amended to provide for remittance of premium on a net billed premium basis rather than on a net written premium basis. In addition, this amendment (“Amendment”) adjusts the amount of unallocated loss adjustment expenses reimbursed to the Transferors in recognition of a reduction in the administrative services provided by the Transferors in September 2009. Execution of the amendment was approved by regulatory authorities in 2012.

Pursuant to the terms of the Amendment, on February 10, 2012, Truck remitted to the Transferors $213 million in deferred premiums and $6.3 million in accrued interest in full settlement of all balances due in connection with the change to cash settlements on the basis of net billed premiums. The effects of this amendment will be reflected in the financial statements of the Company during 2012.

The Company has evaluated subsequent events through February 29, 2012, the date these financial statements were issued.

23. **REINSURANCE**

A. Unsecured Reinsurance Recoverables

The Company has unsecured aggregate recoverables from outside reinsurers as of December 31, 2011 for losses paid, losses unpaid, loss adjustment expenses, and unearned premium that exceed 3% of the Company's policyholder surplus with the following reinsurers (and related group members):

Reinsurer	FEIN	NAIC Group Number	NAIC Code	Unsecured Aggregate Recoverable
Swiss Reinsurance America Corp.	13-1675535	0181	25364	$ 531,385,139
Westport Insurance Corp.	48-0921045	0181	39845	82,064,582
Swiss Re Life & Health America Inc.	06-0839705	0181	82627	5,250,811
North American Elite Insurance Company	13-3440360	0181	29700	3,238
Total Swiss Reinsurance Group		0181		618,703,770
Truck Insurance Exchange	95-2575892	0212	21709	855,392,693
Centre Insurance Company	13-2653231	0212	34649	20,278,126
Farmers Insurance Exchange	95-2575893	0212	21652	6,414,149
Total Zurich Insurance Group		0212		882,084,968
Munich Reinsurance America Inc.	13-4924125	0361	10227	289,612,166
American Alternative Insurance Corp.	52-2048110	0361	19720	783,709
Hartford Steam and Boiler Inspection Insurance Company	06-0384680	0361	11452	126,621
Munich American Reassurance Company	58-0828824	0361	66346	1
Total Munich Reinsurance Group		0361		290,522,497
Everest Reinsurance Company	22-2005057	1120	26921	241,117,670
Total Everest Reinsurance Holdings Group		1120		241,117,670
Total				$ 2,032,428,905

B. Reinsurance Recoverables in Dispute

The Company has no reinsurance recoverables in dispute which exceed 5% of surplus nor does the aggregate of all disputed items exceed 10% of surplus.

C. Reinsurance Assumed and Ceded

(1) The estimated maximum amount of return commission due reinsurers if all of the Company's reinsurance was canceled as of December 31, 2011, is shown below:

	ASSUMED		CEDED		NET	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
Affiliates	$ 2,401,144,633	$ 237,713,319	$ 73,832,735	$ 18,162,853	$ 2,327,311,898	$ 219,550,466
All other	130,575,821	12,927,006	262,161,213	64,491,658	(131,585,392)	(51,564,652)
	$ 2,531,720,454	$ 250,640,325	$ 335,993,948	$ 82,654,511	$ 2,195,726,506	$ 167,985,814

Direct Unearned Premium Reserve: $ 1,687,936,164

(2) Additional or return commission, predicated on loss experience or on any other form of profit sharing arrangements as a result of existing contractual arrangements are accrued as follows:

	Direct	Reinsurance Assumed	Reinsurance Ceded	Net
Contingent commission	$ 58,136,971	$ (555,546)	$	$ 57,581,425
Sliding scale adjustments	-	-	-	-
Other profit commission arrangements	-	-	-	-
	$ 58,136,971	$ (555,546)	$ -	$ 57,581,425

(3) Protected Cells

None

D. Uncollectible Reinsurance

During 2011, the Company has written off reinsurance balances due from the following companies:

Company		Amount
Home Insurance Company	$	1,889,530
Dominion Insurance Company (US)		533,959
Ace Property & Casualty Insurance Company		251,264
Walbrook Insurance Company		205,455
Orion Insurance Company		202,269
Scan Reinsurance Company		157,155
Mutual Reinsurance Company LTD		145,712
Midland Insurance Company		133,532
London & Overseas Insurance Company		132,497
Folksam International Insurance Company		118,105
Total	$	3,769,478

The amount written off is reflected in the accompanying financial statement line items as follows:

		Amount
Losses incurred	$	2,710,180
Loss adjustment expenses incurred		1,059,298
Premium earned		-
Other		-
Total	$	3,769,478

E. Commutation of Ceded Reinsurance

The Company has reported in its operations as of December 31, 2011 the results of commuted reinsurance with the following companies:

Company		Amount
Munich Reinsurance America Inc.	$	153,154,821
Swiss Reinsurance Company Ltd.		14,807,985
Swiss Reinsurance American Corp./Westport Insuranc Corp.		8,300,000
St. Paul Fire and Marine Insurance Company		5,350,000
Unionamerica Insurance Company Ltd.		3,044,652
Colisee Re		2,554,286
ROM Reinsurance Management		2,250,000
Everest Reinsurance Company		1,500,000
Stonebridge Casualty Insurance Company		928,791
The TOA Reinsurance Company of America		900,000
The Dominion Insurance Company Ltd.		750,000
Commercial Risk Re-Insurance/Commercial Risk Reinsurance Co. Ltd		610,000
EAUA Pools Companies		381,667
River Thames Insurance Company Ltd.		255,348
Soma Builders Insurance Company Ltd.		208,010
Delta-Lloyd Schadenverzekerig NV		150,000
Universal Reinsurance Company Ltd.		125,000
Electron Insurance Ltd.		25,052
Total	$	195,295,612

The amount commuted is reflected in the accompanying financial statement line items as follows:

		Amount
Losses incurred	$	115,593,807
Loss adjustment expenses incurred		79,699,470
Premium earned		2,335
Other		-
Total	$	195,295,612

F. Retroactive Reinsurance

The Company's retroactive reinsurance transactions are as follows:

	Assumed	Ceded
a. Reserves Transferred:		
Initial reserves	$ 113,591,357	$ -
Adjustments-prior year(s)	(7,417,340)	-
Adjustments-current year	3,076,803	-
Current total	$ 109,250,820	$ -
b. Consideration Paid or Received:		
Initial reserves	$ 95,922,663	$ -
Adjustments-prior year(s)	-	-
Adjustments-current year	-	-
Current total	$ 95,922,663	$ -
c. Paid Losses Reimbursed or Recovered:		
Prior year(s)	$ 89,773,836	$ -
Current year	6,343,986	-
Current total	$ 96,117,822	$ -
d. Special Surplus from Retroactive Reinsurance:		
Initial surplus gain or loss	$ -	$ -
Adjustments-prior year(s)	-	-
Adjustments-current year	-	-
Current year restricted surplus	-	-
Cumulative total transferred to unassigned funds	$ -	$ -

Additionally, certain reinsurance contracts which were issued subsequent to January 1, 1994 which were still in-force as of December 31, 2011 and 2010, respectively, had either not been signed within nine months of the commencement of the policy period covered by the reinsurance agreement or provided coverage for past insured events. Accordingly, such contracts are presumed to be retroactive and the Company has restricted $56 million and $96 million of unassigned surplus as of December 31, 2011 and 2010, respectively. The Company also determined that these amounts were immaterial to the multiple financial statement line items, schedules, and exhibits and therefore did not reflect the components of the change from prospective to retroactive reinsurance accounting. The retroactive amounts recorded within reinsurance assets totaled $87 million and $137 million as of December 31, 2011 and 2010, respectively. These reinsurance contracts did pass risk transfer and remain valid, legal and enforceable.

e. All cedents and reinsurers involved in all transactions included in the summary totals above as follows:

Reinsurer	NAIC Code	Assumed	Ceded
The Healthcare Company	N/A	$ 67,868,927	$ -
Time-Warner	N/A	16,406,464	-
Diamond International	N/A	8,698,659	-
STARM	N/A	7,334,289	-
Shelby Casualty Insurance Company	30503	5,932,399	-
Other	N/A	3,010,082	-
Total		$ 109,250,820	$ -

f. List total paid loss and LAE amounts ceded and amounts more than 90 days overdue, and collateral held as respects amounts recoverable from such reinsurers above:

(1) Authorized Reinsurers

None

(2) Unauthorized Reinsurers

None

G. Reinsurance Accounted for as a Deposit

According to Statement of Statutory Accounting Principle No. 62, *Property and Casualty Reinsurance*, the Company has accounted for five ceded reinsurance agreements which were determined to be of a deposit nature. As of December 31, 2011, these contracts had balances as follows:

Description	Cash Reserves	Adjustments	Deposit Balance	Balance at December 31, 2011
Contract #1				
Initial Payment	$ -	$ -	$ 12,950,595	
Prior Years	11,360,924	(496,504)	1,093,167	
End of year 2010	123,631	412,820	1,382,356	
End of year 2011	176,783	(992,420)	213,153	$ 213,153
Contract #2				
Initial Payment	-	-	22,364,570	
Prior Years	15,256,091	-	7,108,479	
End of year 2010	4,215,076	-	2,893,403	
End of year 2011	2,893,403		-	$ -
Contract #3				
Initial Payment	-	-	1,982,560	
Prior Years	-	(1,774,675)	207,885	
End of year 2010	-	-	207,885	
End of year 2011		(53,260)	154,625	$ 154,625
Contract #4				
Initial Payment	-	-	18,772,500	
Prior Years	1,870,252	(16,902,248)	-	
End of year 2010	1,251,376	1,251,376	-	
End of year 2011	717,848	717,848	-	$ -
Contract #5				
Initial Payment	-	-	8,125,000	
End of year 2011		(8,125,000)	-	$ -
				$ 367,778

Additionally, certain contracts were identified by the Company that were accounted for as reinsurance but did not pass risk transfer. Accordingly, the Company recorded adjustments to the statement of income for $161,000 and $171,000 for 2011 and 2010, respectively. The Company also determined that these amounts were immaterial to the multiple financial statement line items, schedules, and exhibits and therefore did not reflect the components of the change from reinsurance to deposit accounting. The deposit amounts recorded within reinsurance assets totaled $8.3 million and $12.7 million as of December 31, 2011 and 2010, respectively.

24. **RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION**

A. The Company estimates accrued retrospective premium adjustments by estimating the premium impact related to the losses and allocated loss adjustment expenses that are expected to be used in future retrospective premium adjustment calculations.

B. The accrued retrospective premiums are recorded through an adjustment to earned premiums.

C. See Schedule P - Part 7A.

D. The Company did not pay or incur any medical loss ratio rebates during 2011.

E. The amount of non-admitted retrospective premiums is equal to 10% of the accrued retrospective premiums not offset by liabilities to the same policyholder (other than loss and loss expense reserves) or for which the Company holds acceptable collateral and totaled $25,312,983 and $28,510,363 as of December 31, 2011 and 2010, respectively.

25. **CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES**

Activity in the liabilities for losses and LAE is summarized as follows:

		2011 (in thousands)		2010 (in thousands)
Balance as of January 1, net of reinsurance recoverables of $15,514,722 in 2011 and $15,972,361 in 2010	$	14,303,527	$	14,457,673
Incurred related to:				
Current accident year	$	3,617,889	$	3,473,267
Prior accident years		(197,823)		(194,607)
Total incurred	$	3,420,066	$	3,278,660
Paid related to:				
Current accident year	$	(804,212)	$	(729,205)
Prior accident years		(2,517,749)		(2,703,601)
Total paid	$	(3,321,961)	$	(3,432,806)
Balance as of December 31, net of reinsurance recoverables of $15,687,662 in 2011 and $15,514,722 in 2010	$	14,401,632	$	14,303,527

Reserves as of December 31, 2010 were $14.3 billion. As of December 31, 2011, $2.5 billion has been paid for incurred claim and claim adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now $11.6 billion as a result of re-estimation of unpaid claims and claim adjustment expenses. Therefore, there has been a $197.8 million favorable prior-year development from December 31, 2010 to December 31, 2011. The decrease is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. Included in this decrease, the Company experienced $54.8 million of unfavorable prior year loss development on retrospectively rated policies. However, the business to which it relates is subject to premium adjustments.

26. **INTER-COMPANY POOLING ARRANGEMENTS**

All of the following companies directly or indirectly participate in an inter-company Pooling Agreement on a several basis. Under the terms of the Pooling Agreement, all transactions included in the net income or loss resulting from underwriting operations of each pool participant and the related asset and liability accounts, after the effects of third party reinsurance, are pooled 100% to ZAIC. Each pool participant is directly and solely liable to its insured or reinsured. Additionally, ZAIC is liable for 100% of the liabilities of the Pool, including charge against its surplus for non-admitted assets of each pool participant resulting from assets pooled to ZAIC. All amounts due to or from the Pool are settled in cash each quarter. The following companies participate in the Pooling Agreement.

Company	NAIC
Zurich American Insurance Company	16535
American Guarantee and Liability Insurance Company	26247
American Zurich Insurance Company	40142
Zurich American Insurance Company of Illinois	27855
Steadfast Insurance Company	26387
Maryland Casualty Company	19356
Northern Insurance Company of New York	19372
Assurance Company of America	19305
Fidelity and Deposit Company of Maryland	39306
Colonial American Casualty and Surety Company	34347
Universal Underwriters Insurance Company	41181
Universal Underwriters of Texas Insurance Company	40843
Empire Fire & Marine Insurance Company	21326
Empire Indemnity Insurance Company	21334

27. **STRUCTURED SETTLEMENTS**

A. The dollar amount of loss reserves eliminated by annuities relating to structured settlements for the Company as of December 31, 2011 is 1,436,182,036. The Company remains contingently liable for $706,854,555 as of December 31, 2011 in the event the issuers of the annuities fail to perform under the terms of the annuities.

B. The following life insurance companies' aggregate statement value of annuities equals or exceeds 1% of the Company's policyholder surplus as of December 31, 2011:

Life Insurance Company and Location	Licensed in Company's State of Domicile	Statement Value of Annuities
Metropolitan Life Insurance Company 200 Park Ave. New York, NY 10166	Yes	$ 246,659,606
New York Life Insurance Company 51 Madison Ave. New York, NY 10010	Yes	$ 157,632,253
Prudential Financial Prudential Plaza Newark, NJ 07102	Yes	$ 150,348,999
Hartford Life Insurance Company 200 Hopmeadow Street Simsbury, CT 06089	Yes	$ 116,526,753
John Hancock Life Insurance Company 100 Summit Lake Drive Valhalla, NY 10595	Yes	$ 107,296,935
American General Companies 2727-A Allen Parkway Houston, TX 77019	No	$ 72,923,937

28. **HEALTH CARE RECEIVABLES**

None

29. **PARTICIPATING POLICIES**

None

30. **PREMIUM DEFICIENCY RESERVES**

The Company anticipates investment income in determining if a premium deficiency reserve is required. As of December 31, 2011, the Company did not record a premium deficiency reserve.

31. **HIGH DEDUCTIBLES**

As of December 31, 2011, the amount of reserve credit recorded for high deductibles on unpaid claims was $2,077,615,946 and the amount billed and recoverable on paid losses was $123,627,612.

32. **DISCOUNTING OF LIABILITIES FOR UNPAID LOSSES OR UNPAID LOSS ADJUSTMENT EXPENSES**

The Company discounts certain liabilities for unpaid losses for workers' compensation claims. The Company does not discount unpaid loss adjustment expenses.

A. Tabular

Case reserves for certain workers' compensation claims have been discounted on a tabular basis using the 1999 United States Life Tables at discount rates from 3.5% to 5.0%. The December 31, 2011 and December 31, 2010 liabilities include $253,847,000 and $250,540,000 of such discount, respectively. The amount of discount for case and IBNR reserves at December 31, 2011, after the effect of pooling, is as follows:

Workers' Compensation Tabular Reserve Discount
(in thousands)

	Case	IBNR	Total
1991 and prior	$ 20,819	$ 17,836	$ 38,655
1992	4,241	2,090	6,331
1993	3,390	1,597	4,987
1994	4,328	1,499	5,827
1995	5,598	1,663	7,261
1996	6,954	1,847	8,801
1997	2,927	731	3,658
1998	3,083	770	3,853
1999	4,534	1,061	5,595
2000	1,353	415	1,768
2001	2,684	820	3,504
2002	15,671	3,869	19,540
2003	14,829	3,794	18,623
2004	16,201	3,919	20,120
2005	11,099	2,696	13,795
2006	10,821	2,611	13,432
2007	12,162	2,983	15,145
2008	12,691	3,033	15,724
2009	11,570	2,826	14,396
2010	12,679	3,071	15,750
2011	13,680	3,402	17,082
Total	$ 191,314	$ 62,533	$ 253,847

B. Non-Tabular

None

C. The discount rate applied to the other reserves has not changed from the prior annual statement.

33. **ASBESTOS/ENVIRONMENTAL RESERVES**

A. The Company has exposure to asbestos claims. The Company's exposure arises from general liability and commercial multi-peril policies. Individual case reserves are determined by a specialized, dedicated claim and legal staff. Bulk reserves are determined based upon management's best estimate, taking into consideration an actuarial analysis of ultimate liability. Both case and bulk reserves include a provision for loss and loss adjustment expense. The bulk reserve includes a provision for unreported claims.

The Company's asbestos loss experience for the five most recent calendar years including the reserves carried on asbestos exposures emanating from accident years 1986 and prior follows:

Asbestos (Direct)

Calendar Year	2007	2008	2009	2010	2011
Beginning reserves	$ 426,137,000	$ 467,767,000	$ 422,339,000	$ 382,739,000	$ 400,256,000
Incurred losses					
and loss adjustment expenses	87,792,000	(144,000)	(621,000)	53,187,000	(4,458,000)
Calendar year payments for losses					
and loss adjustment expenses	(46,162,000)	(45,284,000)	(38,979,000)	(35,670,000)	(50,111,000)
Ending reserves	$ 467,767,000	$ 422,339,000	$ 382,739,000	$ 400,256,000	$ 345,687,000

Asbestos (Assumed Reinsurance)

Calendar Year	2007	2008	2009	2010	2011
Beginning reserves	$ -	$ -	$ -	$ -	$ -
Incurred losses					
and loss adjustment expenses	-	-	-	-	-
Calendar year payments for losses					
and loss adjustment expenses	-	-	-	-	-
Ending reserves	$ -	$ -	$ -	$ -	$ -

Asbestos (Net of Reinsurance)

Calendar Year	2007	2008	2009	2010	2011
Beginning reserves	$ 252,907,000	$ 296,090,000	$ 269,960,000	$ 251,884,000	$ 251,047,000
Incurred losses					
and loss adjustment expenses	48,179,000	(135,000)	3,084,000	15,852,000	32,061,000
Calendar year payments for losses					
and loss adjustment expenses	(4,996,000)	(25,995,000)	(21,160,000)	(16,689,000)	20,266,000
Ending reserves	$ 296,090,000	$ 269,960,000	$ 251,884,000	$ 251,047,000	$ 303,374,000

B. The Company holds reserves for unreported claims. The amount of reserves at December 31, 2011 is:

1. Direct Basis	$	143,909,000
2. Assumed Reinsurance Basis	$	-
3. Net of Ceded Reinsurance Basis	$	136,329,000

C. The Company holds reserves for future loss adjustment expenses (including coverage dispute costs). The amount of reserves at December 31, 2011 is:

1. Direct Basis	$	110,961,000
2. Assumed Reinsurance Basis	$	-
3. Net of Ceded Reinsurance Basis	$	86,473,000

D. The Company has exposure to environmental pollution claims. The Company's exposure arises from general liability and commercial multi-peril policies. Individual case reserves are determined by a specialized, dedicated claim and legal staff. Bulk reserves are determined based upon management's best estimate, taking into consideration an actuarial analysis of ultimate liability. Both case and bulk reserves include a provision for loss and loss adjustment expense. The bulk reserve includes a provision for unreported claims.

The Company's environmental pollution loss experience for the five most recent calendar years follows. This data includes the reserves carried on environmental exposures emanating from accident years 1986 and prior.

Environmental Pollution (Direct)

Calendar Year	2007	2008	2009	2010	2011
Beginning reserves	$ 186,270,000	$ 186,685,000	$ 170,906,000	$ 157,645,000	$ 184,279,000
Incurred losses					
and loss adjustment expenses	18,090,000	4,465,000	2,717,000	56,870,000	30,277,000
Calendar year payments for losses					
and loss adjustment expenses	(17,675,000)	(20,244,000)	(15,978,000)	(30,236,000)	(21,743,000)
Ending reserves	$ 186,685,000	$ 170,906,000	$ 157,645,000	$ 184,279,000	$ 192,813,000

Environmental Pollution (Assumed Reinsurance)

Calendar Year	2007	2008	2009	2010	2011
Beginning reserves	$ -	$ -	$ -	$ -	$ -
Incurred losses					
and loss adjustment expenses	-	-	-	-	-
Calendar year payments for losses					
and loss adjustment expenses	-	-	-	-	-
Ending reserves	$ -	$ -	$ -	$ -	$ -

Environmental Pollution (Net of Reinsurance)

Calendar Year	2007	2008	2009	2010	2011
Beginning reserves	$ 152,098,000	$ 147,920,000	$ 132,429,000	$ 135,667,000	$ 135,180,000
Incurred losses					
and loss adjustment expenses	2,318,000	3,714,000	(1,035,000)	17,473,000	(6,385,000)
Calendar year payments for losses					
and loss adjustment expenses	(6,496,000)	(19,205,000)	4,273,000	(17,960,000)	(7,209,000)
Ending reserves	$ 147,920,000	$ 132,429,000	$ 135,667,000	$ 135,180,000	$ 121,586,000

E. The Company holds reserves for unreported claims. The amount of reserves at December 31, 2011 are:

1. Direct Basis	$	79,869,000
2. Assumed Reinsurance Basis	$	-
3. Net of Ceded Reinsurance Basis	$	57,630,000

F. The Company holds reserves for future loss adjustment expenses (including coverage dispute cost). The amount of reserves at December 31, 2011 are:

1. Direct Basis	$	47,655,000
2. Assumed Reinsurance Basis	$	-
3. Net of Ceded Reinsurance Basis	$	37,434,000

34. **SUBSCRIBER SAVINGS ACCOUNTS**

None

35. **MULTIPLE PERIL CROP INSURANCE**

The written premium estimates for multiple peril crop insurance are made at the beginning of each year. Such estimates are recorded evenly throughout the year and are updated as additional information becomes available during the year. Earnings are recognized proportionately throughout the year. A corresponding unearned premium reserve is established to reflect these transactions.

The Pool does not receive expense payments from the FCIC (Federal Crop Insurance Commission) for catastrophic coverage or buy-up coverage. The Pool assumes the majority of its crop business from Rural Community Insurance Company, Inc. (RCIC). Any direct business written by the Pool was ceded to the RCIC and partially assumed back through a reinsurance agreement. RCIC is the holder of the Standard Reinsurance Agreement (SRA) with the Federal government and handles all claim-processing activities. RCIC receives expense payments for the FCIC to cover the administrative expenses associated with selling and servicing crop insurance policies. Rural Community Insurance Agency, Inc. also produced a portion of the Pool's crop business.

Net expenses incurred by RCIC for direct and assumed business are shared with the Pool along with the net underwriting results of the crop program. The Pool recorded its share of RCIC's expenses as commission expense of $21,355,314 and $58,132,368 as of December 31, 2011 and 2010, respectively, in the accompanying financial statements.

36. **FINANCIAL GUARANTY INSURANCE**

None

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? New York

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:

3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2011

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. 12/31/2006

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). 08/03/2009

3.4 By what department or departments?
New York

3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes [X] No [ ] N/A [ ]

3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [ ] No [X] N/A [ ]

4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity), receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11 sales of new business? Yes [X] No [ ]
4.12 renewals? Yes [X] No [ ]

4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21 sales of new business? Yes [X] No [ ]
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? 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 [X] No [ ]

7.2 If yes,
7.21 State the percentage of foreign control; 100.0 %
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 or government, manager or attorney in fact).

1 Nationality	2 Type of Entity
Switzerland	Corporation

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 [X] No [ ]

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

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC
BFP Securities, LLC	St. Louis, Missouri	NO	NO	NO	NO	YES
Farmers Financial Solutions, LLC	Agoura Hills, California	NO	NO	NO	NO	YES

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606

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

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

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

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

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

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

11. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
Bob D. Effinger, Officer of the Company, 1400 American Lane, Schaumburg, IL 60196-1056

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

12.11 Name of real estate holding company 1. Sterling Forest 2. Sch. BA line 17999999

12.12 Number of parcels involved 696

12.13 Total book/adjusted carrying value $ 383,646,888

12.2 If, yes provide explanation:
Involved in Real Estate Partnership that hold/invest in lands and buildings

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

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

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

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

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

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

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

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

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

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

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

GENERAL INTERROGATORIES

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

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

1 American Bankers Association (ABA) Routing Number	2 Issuing or Confirming Bank Name	3 Circumstances That Can Trigger the Letter of Credit	4 Amount
71926045	AMERICAN COMMUNITY BANK & TRUST	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	27,495
292070806	AMERICAN FEDERAL SAVINGS BANK	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	300,000
26008811	BANCO POPULAR NORTH AMERICA	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	25,000
61104408	BANK OF NORTH GEORGIA	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	660,000
71901837	CENTRUE BANK	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	50,000
275976655	COVANTAGE CREDIT UNION	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	1,000,000
103912668	F&M BANK & TRUST COMPANY, THE	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	850,000
61110557	FARMERS & MERCHANTS BANK	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	200,000
81009428	FIRST BANK	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	150,000
61100606	FIRST COMMERCIAL BANK	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	75,000
101102548	FIRST NATIONAL BANK	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	5,214,286
75912864	INVESTORS COMMUNITY BANK	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	18,264
73922429	LIBERTY BANK, F. S. B.	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	50,000
104002894	MUTUAL OF OMAHA BANK	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	700,000
61100606	SYNOVOUS BANK	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	16,704
63109922	TALLAHASSEE STATE BANK	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	2,785,300
53112288	PARAGON COMMERCIAL BANK	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	100,000
101000925	SECURITY BANK OF KANSAS CITY	A letter of credit may be drawn upon if a non renewal is issued by the Bank and replacement collateral is not provided prior to the expiration date or if non-payment of insurance obligations occurs.	175,000

BOARD OF DIRECTORS

16. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No [ ]
17. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No [ ]
18. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict with the official duties of such person? Yes [X] No [ ]

FINANCIAL

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

20.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 20.11 To directors or other officers $
- 20.12 To stockholders not officers $
- 20.13 Trustees, supreme or grand (Fraternal Only) $

20.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 20.21 To directors or other officers $
- 20.22 To stockholders not officers $
- 20.23 Trustees, supreme or grand (Fraternal Only) $

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

21.2 If yes, state the amount thereof at December 31 of the current year:
- 21.21 Rented from others $
- 21.22 Borrowed from others $
- 21.23 Leased from others $
- 21.24 Other $

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

22.2 If answer is yes:
- 22.21 Amount paid as losses or risk adjustment $
- 22.22 Amount paid as expenses $ 440,194
- 22.23 Other amounts paid $

23.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No [ ]

23.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $

INVESTMENT

24.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 24.3) Yes [X] No [ ]

24.2 If no, give full and complete information relating thereto

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

24.4 Does the Company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes [X] No [ ] N/A [ ]

24.5 If answer to 24.4 is yes, report amount of collateral for conforming programs. $ 120,821,061

24.6 If answer to 24.4 is no, report amount of collateral for other programs. $

24.7 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? Yes [X] No [ ] N/A [ ]

24.8 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes [X] No [ ] N/A [ ]

24.9 Does the reporting entity or the reporting entity 's securities lending agent utilize the Master Securities lending Agreement (MSLA) to conduct securities lending? Yes [X] No [ ] N/A [ ]

GENERAL INTERROGATORIES

25.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 21.1 and 24.3). Yes [X] No [ ]

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

25.21 Subject to repurchase agreements $
25.22 Subject to reverse repurchase agreements $
25.23 Subject to dollar repurchase agreements $
25.24 Subject to reverse dollar repurchase agreements $
25.25 Pledged as collateral $
25.26 Placed under option agreements $
25.27 Letter stock or other securities restricted as to sale $
25.28 On deposit with state or other regulatory body $ 2,192,715,694
25.29 Other $

25.3 For category (25.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

26.2 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.

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

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

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

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

1 Name of Custodian(s)	2 Custodian's Address
Bank of New York Mellon	One Wall Street, 14th Floor, New York, NY 10286

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

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

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

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

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

28.05 Identify all investment advisors, 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
104518	Deutsche Investment Management Americas, Inc	345 Park Avenue, New York, NY 10154
107105	BlackRock Financial Management, Inc	40 East 52nd St., New York, NY 10022
107247	JP Morgan Investment Advisors	4 New York Plaza - 12th Floor, New York, NY 10004
106442	Prudential Private Placement Investors, LP	100 Mulberry St., Four Gateway Center, Fl 7, Newark, NJ 07102
	Bank of New York Mellon	32 Old Slip, New York, NY 10286

GENERAL INTERROGATORIES

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

29.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
233203-37-1	DFA International Core Equity	141,646,409
29.2999 - Total		141,646,409

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

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation
DFA International Core Equity	ROYAL DUTCH SHELL PLC-ADR	2,662,952	12/31/2011
DFA International Core Equity	VODAFONE GROUP PLC-SP ADR	1,586,440	12/31/2011
DFA International Core Equity	BP PLC-SPONS ADR	1,543,946	12/31/2011
DFA International Core Equity	HSBC HOLDINGS PLC-SPONS ADR	1,516,617	12/31/2011
DFA International Core Equity	NESTLE SA-REG	949,031	12/31/2011

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

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
30.1 Bonds	19,126,797,808	20,177,406,051	1,050,608,243
30.2 Preferred stocks	259,036	748,952	489,916
30.3 Totals	19,127,056,844	20,178,155,003	1,051,098,159

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

In determining fair market value, for the majority of the securities, quotes were obtained from third party sources. If quotes from these sources were not available, a broker estimate was used.

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

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

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

The brokers selected to price some of the securities were determined by the asset manager. The pricing was vetted by the asset manager who has a SAS 70 in place.

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

32.2 If no, list exceptions: