

ANNUAL STATEMENT
Including Index and Supplements

OF THE

of _____

in the state of _____

TO THE
Insurance Department

OF THE

STATE OF

FOR THE YEAR ENDED
December 31, 2002

PROPERTY AND CASUALTY

2002



10238200220100100

ANNUAL STATEMENT

For the Year Ended December 31, 2002
OF THE CONDITION AND AFFAIRS OF THE

Potomac Insurance Company

NAIC Group Code 1129 1129 NAIC Company Code 10238 Employer's ID Number 23-2809993
(Current Period) (Prior Period)

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

Country of Domicile UNITED STATES OF AMERICA

Incorporated: June 28, 1995 Commenced Business: February 21, 1996

Statutory Home Office: 436 WALNUT STREET PHILADELPHIA, PA 19106

Main Administrative Office: ONE BEACON STREET BOSTON, MA 02108-3100 617-725-6000

Mail Address: ONE BEACON STREET BOSTON, MA 02108-3100

Primary Location of Books and Records: ONE BEACON STREET BOSTON, MA 02108 617-725-6000

Internet Website Address: www.OneBeacon.com

Statement Contact: KENNETH JULIAN COPMAN 617-725-6522
KCopman@OneBeacon.com 617-725-7097
(E-Mail Address) (Fax Number)

Policyowner Relations Contact: Charles T. Robbins 25 Forbes Boulevard Foxborough, MA 02035 508-549-9797

OFFICERS

Chairman of the Board
RAYMOND BARRETTE

President JOHN PAUL CAVOORES
Secretary DENNIS ROBERT SMITH
Treasurer RICHARD CHARLES HIRTLE
Actuary STUART NOEL LERWICK

Vice-Presidents

ROGER MILGRAM SINGER
[Empty lines for other vice-presidents]

DIRECTORS OR TRUSTEES

RAYMOND BARRETTE JOHN PAUL CAVOORES CHARLES BERGEN CHOKEL MORGAN WESLEY DAVIS
RICHARD PAGE HOWARD STUART NOEL LERWICK JAMES JOSEPH RITCHIE ROGER MILGRAM SINGER
[Empty lines for other directors/trustees]

State of MASSACHUSETTS
County of SUFFOLK ss

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

(Signature) (Signature) (Signature)
JOHN PAUL CAVOORES DENNIS ROBERT SMITH PATRICIA LIESSE KUBERA
(Printed Name) (Printed Name) (Printed Name)
President Secretary Treasurer (Senior Vice President and Controller)

Subscribed and sworn to before me this
18th day of February, 2003

- 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	4,369,389		4,369,389	4,598,104
2. Stocks:				
2.1 Preferred stocks (Schedule D, Part 2, Section 1)				
2.2 Common stocks (Schedule D, Part 2, Section 2)				
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens				
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ 0 encumbrances)				
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ 4,573,265 Schedule E, Part 1) and short-term investments (\$ 0 Schedule DA, Part 2)	4,573,265		4,573,265	3,704,127
6. Other invested assets (Schedule BA)				
7. Receivable for securities				
8. Aggregate write-ins for invested assets				
9. Subtotals, cash and invested assets (Lines 1 to 8)	8,942,654		8,942,654	8,302,231
10. Agents' balances or uncollected premiums:				
10.1 Premiums and agents' balances in course of collection				
10.2 Premiums, agents' balances and installments booked but deferred and not yet due (including \$ 0 earned but unbilled premiums)				
10.3 Accrued retrospective premiums				
11. Funds held by or deposited with reinsured companies				
12. Bills receivable, taken for premiums				
13. Amounts receivable under high deductible policies				
14. Reinsurance recoverables on loss and loss adjustment expense payments (Schedule F, Part 3, Cols. 7 and 8)				
15. Federal and foreign income tax recoverable and interest thereon (including \$ 8 net deferred tax asset)	8		8	
16. Guaranty funds receivable or on deposit				
17. Electronic data processing equipment and software				
18. Interest, dividends and real estate income due and accrued	53,572		53,572	37,133
19. Net adjustments in assets and liabilities due to foreign exchange rates				
20. Receivable from parent, subsidiaries and affiliates				
21. Amount due from/to protected cells				
22. Equities and deposits in pools and associations				
23. Amounts receivable relating to uninsured accident and health plans				
24. Other assets nonadmitted (Exhibit 1)				
25. Aggregate write-ins for other than invested assets	564		564	710
26. Total assets excluding protected cell assets (Lines 9 through 25)	8,996,798		8,996,798	8,340,074
27. Protected cell assets				
28. TOTALS (Lines 26 and 27)	8,996,798		8,996,798	8,340,074

DETAILS OF WRITE-INS				
0801.				
0802.				
0803.				
0898. Summary of remaining write-ins for Line 8 from overflow page				
0899. Totals (Lines 0801 through 0803 + 0898) (Line 8 above)				
2501. Sundry balances	564		564	710
2502.				
2503.				
2598. Summary of remaining write-ins for Line 25 from overflow page				
2599. Totals (Lines 2501 through 2503 + 2598) (Line 25 above)	564		564	710

LIABILITIES, SURPLUS AND OTHER FUNDS	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	1,555,326,821	1,607,033,355
2. Reinsurance payable on paid loss and loss adjustment expenses (Schedule F, Part 1, Column 6)		
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	354,384,639	396,202,779
4. Commissions payable, contingent commissions and other similar charges		
5. Other expenses (excluding taxes, licenses and fees)	26,310	19,553
6. Taxes, licenses and fees (excluding federal and foreign income taxes)		
7. Federal and foreign income taxes (including \$ 0 on realized capital gains (losses) (including \$ 0 net deferred tax liability)	15,999	78,000
8. Borrowed money \$ 0 and interest thereon \$ 0		
9. Unearned premiums (Part 1A, Line 37, Column 5)(after deducting unearned premiums for ceded reinsurance of \$ 0 and including warranty reserves of \$ 0)		
10. Advance premium		
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		
12. Ceded reinsurance premiums payable (net of ceding commissions)		
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)		
14. Amounts withheld or retained by company for account of others		
15. Remittances and items not allocated		
16. Provision for reinsurance (Schedule F, Part 7)		
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding		
19. Payable to parent, subsidiaries and affiliates	601	601
20. Payable for securities		268
21. Liability for amounts held under uninsured accident and health plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	(1,909,711,459)	(2,003,236,156)
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	42,911	98,400
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	42,911	98,400
27. Aggregate write-ins for special surplus funds	489,484,000	489,484,000
28. Common capital stock	2,350,000	2,350,000
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes		
32. Gross paid in and contributed surplus	5,150,000	5,150,000
33. Unassigned funds (surplus)	(488,030,113)	(488,742,326)
34. Less treasury stock, at cost:		
34.1 0 shares common (value included in Line 28 \$ 0)		
34.2 0 shares preferred (value included in Line 29 \$ 0)		
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 38)	8,953,887	8,241,674
36. TOTALS (Page 2, Line 28, Col. 3)	8,996,798	8,340,074
DETAILS OF WRITE-INS		
2301. Retroactive reinsurance reserve ceded	(1,909,711,459)	(2,003,236,156)
2302.		
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page		
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	(1,909,711,459)	(2,003,236,156)
2701. Special surplus from retroactive reinsurance account	489,484,000	489,484,000
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page		
2799. Totals (Lines 2701 through 2703 plus 2798) (Line 27 above)	489,484,000	489,484,000
3001.		
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page		
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)		

UNDERWRITING AND INVESTMENT EXHIBIT STATEMENT OF INCOME UNDERWRITING INCOME	1 Current Year	2 Prior Year
1. Premiums earned (Part 1, Line 34, Column 4)		1,597,321,000
DEDUCTIONS		
2. Losses incurred (Part 2, Line 34, Column 7)		1,671,377,143
3. Loss expenses incurred (Part 3, Line 25, Column 1)		415,427,857
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)		
5. Aggregate write-ins for underwriting deductions		
6. Total underwriting deductions (Lines 2 through 5)		2,086,805,000
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)		(489,484,000)
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	260,741	359,307
10. Net realized capital gains (losses) (Exhibit of Capital Gains (Losses))	277,655	114,276
11. Net investment gain (loss) (Lines 9 + 10)	538,396	473,583
OTHER INCOME		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 0 amount charged off \$ 0)		
13. Finance and service charges not included in premiums		
14. Aggregate write-ins for miscellaneous income	8,840	489,492,670
15. Total other income (Lines 12 through 14)	8,840	489,492,670
16. Net income before dividends to policyholders and before federal and foreign income taxes (Lines 8 + 11 + 15)	547,236	482,253
17. Dividends to policyholders		
18. Net income, after dividends to policyholders but before federal and foreign income taxes (Line 16 minus Line 17)	547,236	482,253
19. Federal and foreign income taxes incurred	(164,971)	82,449
20. Net income (Line 18 minus Line 19) (to Line 22)	712,207	399,804
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 38, Column 2)	8,241,673	7,841,869
GAINS AND (LOSSES) IN SURPLUS		
22. Net income (from Line 20)	712,207	399,804
23. Net unrealized capital gains or (losses)		
24. Change in net unrealized foreign exchange capital gain (loss)		
25. Change in net deferred income tax	8	
26. Change in nonadmitted assets (Exhibit 1, Line 5, Col. 3)		
27. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)		
28. Change in surplus notes		
29. Surplus (contributed to) withdrawn from protected cells		
30. Cumulative effect of changes in accounting principles		
31. Capital changes:		
31.1 Paid in		
31.2 Transferred from surplus (Stock Dividend)		
31.3 Transferred to surplus		
32. Surplus adjustments:		
32.1 Paid in		
32.2 Transferred to capital (Stock Dividend)		
32.3 Transferred from capital		
33. Net remittances from or (to) Home Office		
34. Dividends to stockholders		
35. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)		
36. Aggregate write-ins for gains and losses in surplus		
37. Change in surplus as regards policyholders for the year (Lines 22 through 36)	712,215	399,804
38. Surplus as regards policyholders, December 31 current year (Lines 21 plus Line 37) (Page 3, Line 35)	8,953,888	8,241,673

DETAILS OF WRITE-INS		
0501.		
0502.		
0503.		
0598. Summary of remaining write-ins for Line 5 from overflow page		
0599. Totals (Lines 0501 through 0503 plus Line 0598) (Line 5 above)		
1401. Miscellaneous income and expenses	8,840	8,670
1402. Retroactive reinsurance gain		489,484,000
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page		
1499. Totals (Lines 1401 through 1403 plus Line 1498) (Line 14 above)	8,840	489,492,670
3601.		
3602.		
3603.		
3698. Summary of remaining write-ins for Line 36 from overflow page		
3699. Totals (Lines 3601 through 3603 plus Line 3698) (Line 36 above)		

CASH FLOW

	1 Current Year	2 Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance		1,597,321,000
2. Loss and loss adjustment expenses paid (net of salvage and subrogation)	93,524,697	83,568,844
3. Underwriting expenses paid		
4. Other underwriting income (expenses)		
5. Cash from underwriting (Line 1 minus Line 2 minus Line 3 plus Line 4)	(93,524,697)	1,513,752,156
6. Net Investment income	292,401	461,694
7. Other income (expenses):		
7.1 Agents' balances charged off		
7.2 Net funds held under reinsurance treaties		
7.3 Net amount withheld or retained for account of others		
7.4 Aggregate write-ins for miscellaneous items	93,533,537	(1,513,743,486)
7.5 Total other income (Lines 7.1 to 7.4)	93,533,537	(1,513,743,486)
8. Dividends to policyholders on direct business, less \$ 0 dividends on reinsurance assumed or ceded (net)		
9. Federal and foreign income taxes (paid) recovered	102,970	(18,449)
10. Net cash from operations (Line 5 plus Line 6 plus Line 7.5 minus Line 8 plus Line 9)	404,211	451,915
Cash from Investments		
11. Proceeds from investments sold, matured or repaid:		
11.1 Bonds	4,215,031	5,713,059
11.2 Stocks		
11.3 Mortgage loans		
11.4 Real estate		
11.5 Other invested assets		
11.6 Net gains or (losses) on cash and short-term investments		
11.7 Miscellaneous proceeds		268
11.8 Total investment proceeds (Lines 11.1 to 11.7)	4,215,031	5,713,327
12. Cost of investments acquired (long-term only):		
12.1 Bonds	3,749,983	4,648,188
12.2 Stocks		
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets		
12.6 Miscellaneous applications	268	
12.7 Total investment acquired (Lines 12.1 to 12.6)	3,750,251	4,648,188
13. Net cash from investments (Line 11.8 minus Line 12.7)	464,780	1,065,139
Cash from Financing and Miscellaneous Sources		
14. Cash provided:		
14.1 Surplus notes, capital and surplus paid in		
14.2 Capital notes \$ 0 less amounts repaid \$ 0		
14.3 Net transfers from affiliates		601
14.4 Borrowed funds received		
14.5 Other cash provided	151	
14.6 Total (Lines 14.1 to 14.5)	151	601
15. Cash applied:		
15.1 Dividends to stockholders paid		
15.2 Net transfers to affiliates		
15.3 Borrowed funds repaid		
15.4 Other applications		710
15.5 Total (Lines 15.1 to 15.4)		710
16. Net cash from financing and miscellaneous sources (Line 14.6 minus Line 15.5)	151	(109)
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
17. Net change in cash and short-term investments (Line 10, plus Line 13, plus Line 16)	869,142	1,516,945
18. Cash and short-term investments:		
18.1 Beginning of year	3,704,122	2,187,177
18.2 End of year (Line 17 plus Line 18.1)	4,573,264	3,704,122
DETAILS OF WRITE-INS		
7.401 Retroactive reinsurance reserve ceded	93,524,697	8,670
7.402 Retroactive reinsurance gain		489,484,000
7.403 Miscellaneous income and expenses	8,840	(2,003,236,156)
7.498 Summary of remaining write-ins for Line 7.4 from overflow page		
7.499 Totals (Lines 7.401 through 7.403 + 7.498) (Line 7.4 above)	93,533,537	(1,513,743,486)

NONE Underwriting and Investment Exhibit - Part 1

NONE Underwriting and Investment Exhibit - Part 1A

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B - PREMIUMS WRITTEN

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

Line of Business	1 Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
		2 From Affiliates	3 From Non- Affiliates	4 To Affiliates	5 To Non- Affiliates	
1. Fire						
2. Allied lines						
3. Farmowners multiple peril						
4. Homeowners multiple peril						
5. Commercial multiple peril	(10,551)			(10,551)		
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine						
10. Financial guaranty						
11.1 Medical malpractice - occurrence						
11.2 Medical malpractice - claims-made						
12. Earthquake						
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	(13,316)			(13,316)		
17.1 Other liability - occurrence	10,551			10,551		
17.2 Other liability - claims-made						
18.1 Products liability - occurrence						
18.2 Products liability - claims-made						
19.1, 19.2 Private passenger auto liability	(777)			(777)		
19.3, 19.4 Commercial auto liability	(1,887)			(1,887)		
21. Auto physical damage						
22. Aircraft (all perils)						
23. Fidelity						
24. Surety						
26. Burglary and theft						
27. Boiler and machinery						
28. Credit						
29. International						
30. Reinsurance-Nonproportional Assumed Property	X X X					
31. Reinsurance-Nonproportional Assumed Liability	X X X					
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X					
33. Aggregate write-ins for other lines of business						
34. TOTALS	(15,980)			(15,980)		

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

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

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

Line of Business	Losses Paid Less Salvage				5 Net Losses Unpaid Current Year (Part 2A, Col. 8)	6 Net Losses Unpaid Prior Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)				
1. Fire		58,770		58,770	7,306,540	5,006,399	2,358,911	
2. Allied Lines		459,516		459,516	(689,183)	226,288	(455,955)	
3. Farmowners multiple peril		582		582	52,449	50,689	2,342	
4. Homeowners multiple peril		292,567		292,567	783,435	696,544	379,458	
5. Commercial multiple peril	639,593	1,814,245	639,593	1,814,245	244,114,972	299,545,544	(53,616,327)	
6. Mortgage guaranty								
8. Ocean marine		3,495		3,495	1,549,102	1,033,348	519,249	
9. Inland marine	2,200	555,689	2,200	555,689	684,912	21,056	1,219,545	
10. Financial guaranty								
11.1 Medical malpractice - occurrence		23,475		23,475	964,809	657,315	330,969	
11.2 Medical malpractice - claims - made								
12. Earthquake		32		32	3,272	2,121	1,183	
13. Group accident and health								
14. Credit accident and health (group and individual)								
15. Other accident and health		5,048		5,048	181,691	115,236	71,503	
16. Workers' compensation	2,346,962	894,042	2,346,962	894,042	217,663,242	210,021,354	8,535,930	
17.1 Other liability - occurrence	553,796	33,327,390	553,796	33,327,390	642,164,671	458,094,649	217,397,412	
17.2 Other liability - claims - made								
18.1 Products liability - occurrence		10,333,613		10,333,613	60,000	45,000	15,000	
18.2 Products liability - claims - made					350,489,717	542,107,216	(181,283,886)	
19.1, 19.2 Private passenger auto liability	42,300	1,084,423	42,300	1,084,423	12,088,864	4,452,397	8,720,890	
19.3, 19.4 Commercial auto liability	348,324	233,400	348,324	233,400	5,447,882	9,788,480	(4,107,198)	
21. Auto physical damage	(1,257)	287,390	(1,257)	287,390	270,523	180,014	377,899	
22. Aircraft (all perils)		(351,109)		(351,109)	835,240	2,458,135	(1,974,004)	
23. Fidelity		(4,616)		(4,616)	3,314	2,163	(3,465)	
24. Surety		29,464		29,464	180,277	294,675	(84,934)	
26. Burglary and theft					3,273	2,121	1,152	
27. Boiler and machinery		64		64	8,411	4,948	3,527	
28. Credit								
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X	(16,021)		(16,021)	5,578	222,882	(233,325)	
31. Reinsurance-Nonproportional Assumed Liability	X X X	2,634,877		2,634,877	71,153,831	72,004,802	1,783,906	
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X							
33. Aggregate write-ins for other lines of business								
34. TOTALS	3,931,918	51,666,336	3,931,918	51,666,336	1,555,326,822	1,607,033,376	(40,218)	

DETAILS OF WRITE-INS

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

**UNDERWRITING AND INVESTMENT EXHIBIT
PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

Line of Business	Reported Losses				Incurred But Not Reported			8 Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	9 Unpaid Loss Adjustment Expenses
	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded		
1. Fire		4,995,527		4,995,527	(6)	2,311,013	(6)	7,306,540	165,992
2. Allied lines		59,503		59,503		(748,686)		(689,183)	6,527
3. Farmowners multiple peril		50,117		50,117		2,332		52,449	6,300
4. Homeowners multiple peril		665,164		665,164		118,271		783,435	113,816
5. Commercial multiple peril	1,221,418	209,421,884	1,221,418	209,421,884	1,280,097	34,693,089	1,280,097	244,114,973	49,080,333
6. Mortgage guaranty									
8. Ocean marine		1,023,312		1,023,312		525,789		1,549,101	52,151
9. Inland marine		569,552		569,552		115,360		684,912	31,145
10. Financial guaranty									
11.1 Medical malpractice - occurrence		548,607		548,607		416,201		964,808	563
11.2 Medical malpractice - claims - made									
12. Earthquake		2,106		2,106		1,166		3,272	13
13. Group accident and health								(a)	1,000
14. Credit accident and health (group and individual)								(a)	
15. Other accident and health		108,244		108,244		73,447		181,691	
16. Workers' compensation	4,646,201	180,707,511	4,646,201	180,707,511	(11,860)	36,955,731	(11,860)	217,663,242	30,057,007
17.1 Other liability - occurrence	383,086	96,812,339	383,086	96,812,339	30,490	545,352,332	30,490	642,164,671	153,015,529
17.2 Other liability - claims - made		60,000		60,000				60,000	
18.1 Products liability - occurrence		(1,889,090)		(1,889,090)		352,378,807		350,489,717	119,110,010
18.2 Products liability - claims - made									
19.1, 19.2 Private passenger auto liability	1,961	9,511,285	1,961	9,511,285	13,269	2,577,579	13,269	12,088,864	329,994
19.3, 19.4 Commercial auto liability	291,285	5,393,401	291,285	5,393,401	98,887	54,481	98,887	5,447,882	586,832
21. Auto physical damage		162,215		162,215	(432)	108,308	(432)	270,523	7,558
22. Aircraft (all perils)		188,563		188,563		646,677		835,240	18,900
23. Fidelity		2,148		2,148		1,166		3,314	74
24. Surety		106,830		106,830		73,447		180,277	42,202
26. Burglary and theft		2,107		2,107		1,166		3,273	165
27. Boiler and machinery		4,914		4,914		3,497		8,411	168
28. Credit									
29. International									
30. Reinsurance-Nonproportional Assumed Property	X X X	5,578		5,578	X X X			5,578	
31. Reinsurance-Nonproportional Assumed Liability	X X X	28,267,768		28,267,768	X X X	42,886,063		71,153,831	1,758,261
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
33. Aggregate write-ins for other lines of business									
34. TOTALS	6,543,951	536,779,585	6,543,951	536,779,585	1,410,445	1,018,547,236	1,410,445	1,555,326,821	354,384,540
DETAILS OF WRITE-INS									
3301.									
3302.									
3303.									
3398. Summary of remaining write-ins for Line 33 from overflow page									
3399. Totals (Lines 3301 through 3303 + 3398) (Line 33 above)									

(a) Including \$ 0 for present value of life indemnity claims.

**UNDERWRITING AND INVESTMENT EXHIBIT
PART 3 - EXPENSES**

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	(173,955)			(173,955)
1.2 Reinsurance assumed				
1.3 Reinsurance ceded	(173,955)			(173,955)
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)				
2. Commission and brokerage:				
2.1 Direct excluding contingent		(949)		(949)
2.2 Reinsurance assumed excluding contingent				
2.3 Reinsurance ceded excluding contingent		(949)		(949)
2.4 Contingent-direct				
2.5 Contingent-reinsurance assumed				
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)				
3. Allowances to manager and agents				
4. Advertising				
5. Boards, bureaus and associations				
6. Surveys and underwriting reports				
7. Audit of assureds' records				
8. Salary and related items:				
8.1 Salaries			8,116	8,116
8.2 Payroll taxes			992	992
9. Employee relations and welfare			1,192	1,192
10. Insurance				
11. Directors' fees				
12. Travel and travel items			221	221
13. Rent and rent items			1,304	1,304
14. Equipment			176	176
15. Cost of depreciation of EDP equipment and software			4	4
16. Printing and stationery			92	92
17. Postage, telephone and telegraph, exchange and express			223	223
18. Legal and auditing			2,501	2,501
19. Totals (Lines 3 to 18)			14,821	14,821
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 0				
20.2 Insurance department licenses and fees				
20.3 Gross guaranty association assessments				
20.4 All other (excluding federal and foreign income and real estate)				
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)				
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured accident and health plans				
24. Aggregate write-ins for miscellaneous expenses			3,851	3,851
25. Total expenses incurred			18,672	(a) 18,672
26. Less unpaid expenses-current year	354,384,639		8,438	354,393,077
27. Add unpaid expenses-prior year	396,202,779		1,661	396,204,440
28. Amounts receivable relating to uninsured accident and health plans, prior year				
29. Amounts receivable relating to uninsured accident and health plans, current year				
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	41,818,140		11,895	41,830,035
DETAILS OF WRITE-INS				
2401. Miscellaneous expenses			3,851	3,851
2402.				
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)			3,851	3,851

(a) Includes management fees of \$ 16,979 to affiliates and \$ 0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 193,722	205,151
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a)	
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)		
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash/short-term investments	(e) 69,252	74,261
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income		
10. Total gross investment income	262,974	279,412
11. Investment expenses		(g) 18,671
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i)
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		18,671
17. Net investment income - (Line 10 minus Line 16)		260,741
DETAILS OF WRITE-INS		
0901.		
0902.		
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page		
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)		
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		
1599. Totals (Lines 1501 through 1503) plus 1598 (Line 15, above)		

- (a) Includes \$ 1,416 accrual of discount less \$ 42,739 amortization of premium and less \$ 11,355 paid for accrued interest on purchases.
- (b) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued dividends on purchases.
- (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (d) Includes \$ 0 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (f) Includes \$ 0 accrual of discount less \$ 0 amortization of premium.
- (g) Includes \$ 0 investment expenses and \$ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$ 0 interest on surplus notes and \$ 0 interest on capital notes.
- (i) Includes \$ 0 depreciation on real estate and \$ 0 depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1	2	3	4	5
	Realized Gain (Loss) On Sales or Maturity	Other Realized Adjustments	Increases (Decreases) by Adjustment	Net Gain (Loss) from Change in Difference Between Basis Book/Adjusted Carrying and Admitted Values	Total
1. U.S. Government bonds	277,655				277,655
1.1 Bonds exempt from U.S. tax					
1.2 Other bonds (unaffiliated)					
1.3 Bonds of affiliates					
2.1 Preferred stocks (unaffiliated)					
2.11 Preferred stocks of affiliates					
2.2 Common stocks (unaffiliated)					
2.21 Common stocks of affiliates					
3. Mortgage loans					
4. Real estate					
5. Contract loans					
6. Cash/short-term investments					
7. Derivative instruments					
8. Other invested assets					
9. Aggregate write-ins for capital gains (losses)					
10. Total capital gains (losses)	277,655				277,655
DETAILS OF WRITE-INS					
0901.					
0902.					
0903.					
0998. Summary of remaining write-ins for Line 9 from overflow page					
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)					

**EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS
AND RELATED ITEMS**

	1	2	3
	End of Current Year	End of Prior Year	Changes for Year (Increase) Decrease
1. Summary of Items Page 2, Lines 10 to 17 and 19 to 23, Column 2			
2. Other Nonadmitted Assets:			
2.1 Bills receivable	NONE		
2.2 Furniture, equipment and supplies			
2.3 Leasehold improvements			
2.4 Loans on personal security, endorsed or not			
3. Total (Lines 2.1 to 2.4)			
4. Aggregate write-ins for other assets			
5. Total (Line 1 plus Lines 3 and 4)			
DETAILS OF WRITE-INS			
0401.	NONE		
0402.			
0403.			
0498. Summary of remaining write-ins for Line 4 from overflow page			
0499. Totals (Lines 0401 through 0403 plus 0498) (Line 4 above)			

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(A) Accounting Practices

The accompanying financial statements of Potomac Insurance Company (the Company) have been prepared in conformity with the statutory accounting practices set forth in the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual, version effective March 2002 (NAIC SSAP).

There were no differences between the Company's financial statements prepared according to NAIC SSAP and the Statutory Accounting Practices prescribed by the Commonwealth of Pennsylvania which would require disclosure in the Notes to Financial Statements.

(B) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with the Annual Statement Instructions and the Accounting Practices and Procedures Manual requires management to make 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 expense during the period. Actual results could differ from those estimates.

(C) Accounting Policy

1. The Company's investment portfolio of bonds, preferred stocks, common stocks and other investments are carried at the NAIC prescribed method as described below. The net change in unrealized investment gains and losses are reported as a component of surplus. Realized gains or losses resulting from the sale of investment securities are accounted for using the specific identification method.
2. Cash and short-term investments which include cash, money market funds and certificates of deposits, U.S. Treasury Bills and other securities which mature or become available for use within a year. Cash and short-term investments, other than U.S. Treasury Bills, are carried at cost. U.S. Treasury Bills are carried at amortized cost, which approximates fair value as of December 31, 2002.
3. Bonds are carried at the lower of market or amortized cost using the scientific method. Premiums and discounts on fixed maturity investments are accreted to income over the anticipated life of the security.
4. The prospective method is used to value loan backed bonds, mortgage backed securities and structured securities. Prepayment assumptions and market values for loan backed bonds, mortgage backed securities and structured securities were obtained from Bears Sterns, Inc as of December 31, 2002. Premiums and discounts on fixed maturity investments are accreted to income over the anticipated life of the security.
5. The Company's investment strategy does not include derivative financial instruments and as of December 31, 2002 the Company did not hold any derivative financial instruments.
6. The Company does utilize anticipated investment income in its premium deficiency calculations.
4. Premiums written are recognized as revenues and are earned ratably over the terms of the related policies or reinsurance treaties. Unearned premiums represent the portion of premiums written that are applicable to future insurance or reinsurance coverage provided by policies or treaties in force.
5. Unpaid loss and loss adjustment expenses are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. Reserves are typically comprised of (1) case reserves for claims reported and (2) reserves for losses that have occurred but for which claims have not yet be reported, referred to as incurred but not reported ("IBNR") reserves, which include a provision for expected future development on case reserves. Case reserves are estimated based on experience and knowledge of claims staff regarding the nature and potential cost of each claim and are adjusted as additional information becomes known or payments are made. IBNR reserves are regarded as the most uncertain reserve segment and are derived by subtracting paid loss and LAE and case reserves from estimates of ultimate loss and loss adjustment expenses using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made. Management believes that reserves as of December 31, 2002 are reasonably stated; however, ultimate loss and loss adjustment expenses may deviate, perhaps materially, from the amounts currently reflected in the reserve balance. Adverse development, if any, would impact the Company's future results of operations.

NOTES TO FINANCIAL STATEMENTS

2. Accounting Changes and Corrections of Errors

- (A) There were no material accounting changes, and/or corrections of errors.
- (B) The Company recorded the cumulative effect of changes in accounting principles as a result of the initial implementation of codification in its 2001 Statutory Financial Statements. There were no further adjustments in 2002.

3. Business Combinations and Goodwill

The Company was not a party to a business combination.

4. Discontinued Operations

The Company did not discontinue any of its operations.

5. Investments**(A) Mortgage Loans**

The Company does not invest in mortgage loans.

(B) Debt Restructuring

The Company does not hold restructured debt in which it is a creditor.

(C) Reverse Mortgages

The Company does not invest in reverse mortgages.

(D) Loan-Backed Securities

Refer to Note 1(C)4.

(E) Repurchase Agreements

The Company has not entered into any repurchase agreements.

6. Joint Ventures, Partnerships and Limited Liability Companies

The Company has not entered into any Joint Venture, Partnership or Limited Liability Company agreements.

7. Investment Income

- (A) All investment income due and accrued with amounts that are over 90 days past due are non admitted.
- (B) The Company did not have non admitted investment income due and accrued as of December 31, 2002.

8. Derivative Instruments

The Company's investment strategy does not include derivative instruments and the Company did not hold any derivative instruments as of December 31, 2002.

9. Income TaxesFederal Income Tax Allocation:

- (A) The components of the net deferred tax asset / (liability) are as follows:

	2002	2001
1. The total of all DTAs (admitted and nonadmitted)	39	0
2. The total of all DTLs	0	0
Net deferred tax asset	39	0
3. The total of all nonadmitted DTAs	31	0
Admitted net deferred tax asset	8	0
4. The net change during the year in the total DTAs nonadmitted	31	0

- (B) All DTLs were recognized.

- (C) Disclose the significant components of income taxes incurred and the changes in DTAs and DTLs:

	2002	2001
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NOTES TO FINANCIAL STATEMENTS

1.	Current income tax expense or benefit	191,571	96,449
	a. Change in DTAs	39	(26,641)
	b. Change in DTLs	0	14,139
2.	Net change in deferred taxes	8	(4,451)
3.	Net deferred income taxes include		
	a benefit from net operating losses of	0	0
4.	The components of the 2002 deferred tax amounts are as follows:		

	Statutory	Tax	Gross DTA (DTL)	Nonadmitted	Net DTA(DTL)
Bonds	4,369,389	4,369,500	39	31	8
Stocks	0	0	0	0	0
Other invested assets	0	0	0	0	0
Fixed assets	0	0	0	0	0
Nonadmitted assets					
excl. n/a DTA	54,136	54,136	0	0	0
Accrued Expenses	26,310	26,310	0	0	0
Unpaid losses and LAE	0	0	0	0	0
Unearned premium reserve	0	0	0	0	0
NOL carryforward	0	0	0	0	0
Other	0	0	0	0	0
Total	4,449,835	4,449,946	39	31	8

5. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	DTA (DTL) 2002	DTA (DTL) 2001	Change
Bonds	39	0	39
Stocks	0	0	0
Other invested assets	0	0	0
Fixed assets	0	0	0
Nonadmitted assets (excl. aff & tax)	0	0	0
Accrued Expenses and other	0	0	0
Unpaid losses and LAE	0	0	0
Unearned premium reserve	0	0	0
NOL carryforward	0	0	0
Total Gross	39	0	39
Nonadmitted DTAs	31	0	31
Net Deferred tax asset			8
Tax effect of the change in unrealized gain			0
Change in net deferred Federal income tax			39

6. There are no investment tax credits.
7. There were no adjustments of DTA or DTL for enacted changes in tax laws or rates or a change in the tax status of the reporting entity.

(D) Reconciliation of Federal income tax rate to actual effective rate.

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. Among the more significant items causing this difference were the following:

Description	Amount	Tax effect at 35%	Effective Tax Rate
Income before taxes	547,236	191,533	35.00%
Tax exempt interest net of proration	0	0	0.00%
Dividend received deduction net of proration	0	0	0.00%
Meals and entertainment	0	0	0.00%
Prior tax year adjustment	0	0	0.00%
Change in nonadmitted assets	0	0	0.00%
Total	547,236	191,533	35.00%
Federal income tax incurred (including taxes on capital gains)		191,571	35.01%
Change in gross deferred tax		(39)	-0.01%
Total statutory income taxes		191,532	35.00%

NOTES TO FINANCIAL STATEMENTS

- (E) Operating loss and Tax Credit Carryforwards
1. At December 31, 2002, the Company had 0 of unused loss carryforwards originating in 2002, which expire, if unused, in 2022.
 2. The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

<u>Year</u>	<u>Amount</u>
2002	191,571
2001	83,801

- (F) 1(a) The Company's federal income tax return is consolidated with the following entities:

Fund American Enterprise Holdings, Inc. (Parent Corporation)
Fund American Companies, Inc.
OneBeacon America Insurance Company
American Employers' Insurance Company
The Employers' Fire Insurance Company
The Northern Assurance Company of America
OneBeacon Midwest Insurance Company
American Central Insurance Company
Massachusetts Homeland Insurance Company
OneBeacon Lloyd's of Texas
York Insurance Company of Maine
OneBeacon Insurance Company
Pennsylvania General Insurance Company
The Camden Fire Insurance Association
Potomac Insurance Company of Illinois
General Assurance Company
Homeland Insurance Company of New York
PG Insurance Company of New York
Esurance Property and Casualty Insurance Company
Potomac Insurance Company
Homeland Central Insurance Company
United Security Insurance Company
Western States Insurance Company
Esurance Insurance Company (Formerly Tri-State Insurance Company)
Farmers & Merchants Insurance Company
Midwestern Insurance Company
Houston General Insurance Company
Houston General Lloyds
Traders & General Insurance Company
Traders & Pacific Insurance Company
National Farmers Union Property and Casualty Company
National Farmers Union Standard Insurance Company
OneBeacon Services Corporation
OneBeacon Asset Management, Inc.
OneBeacon Risk Management, Inc.
OneBeacon Finance Corporation
Beacon Advertising Corporation
OneBeacon Lloyd's, Inc.
A.W.G. Dewar, Inc.
TCH Insurance Agency, Inc.
OneBeacon Leasing, Inc.
OneBeacon Investors Co. #15
OneBeacon Investors Co. #16
OneBeacon Investors Co. #18
OneBeacon Investors Co. #21
Folksamerica Holding Company, Inc.
International American Management Company
IA Management Company
British Insurance Company of Cayman
Folksamerica Reinsurance Company
PCA Property & Casualty Insurance Company
American Centennial Insurance Company
Folksamerica Specialty Underwriting, Inc.
Peninsula Insurance Company
Peninsula Indemnity Company
National Credit Plan Corp
Fester, Fothergill & Hartung, Ltd
FFH Management Corp

NOTES TO FINANCIAL STATEMENTS

Esurance, Inc.
Imperial Casualty and Indemnity Company

- (b) Under the terms of the federal tax allocation agreement effective for the tax period January 1 through December 31, 2002, the affiliated group listed in 9(F)1(a) shall compute on or before the date provided by law for the payment of any federal income tax or estimated tax (the "Adjustment Date") the amount of income taxes or estimated tax or refund to which each company listed would have to make or to which such member would be entitled if it filed at the time a return, declaration or refund claim as a separate corporation and had not at the time been a member of the affiliated group. If on any Adjustment Date:
- (i) one or more members is liable for any amount of income taxes on a separate return basis ("Separate Member Tax") such member or members shall pay to Fund American Enterprise Holdings, Inc. an amount equal to such Separate Member Tax, whether or not the aggregate amount of the Separate Member Taxes is in excess of the tax payment then due from the affiliated group to the U.S. Treasury;
 - (ii) one or more members would be entitled to a refund on a separate return basis ("Separate Member Refund"), such member or members shall receive from Fund American Enterprise Holdings Inc., in the full amount equal to the Separate Member Refund.

The tax allocation agreement further provides that if on any Adjustment Date the Separate return computation for any subsidiary would show a loss but not a Separate Member Refund, such loss shall be carried forward to subsequent periods and shall be taken into account to the extent authorized by law in computations of the Separate Member Tax of such member with respect to such periods.

10. Information Concerning Parent, Subsidiaries and Affiliates

(A,B&C) Transactions entered into by this Company with its affiliates are described in Schedule Y Part 2.

- (D) At December 31, 2002, the Company did not have material amounts due to or from related parties.
- (E) There were no guarantees or undertakings, written or otherwise, for the benefit of an affiliate or related party that resulted in a material contingent exposure of the reporting entity's or any related party's assets or liabilities.
- (F) The Company has an investment management agreement with OneBeacon Asset Management, Inc., an affiliated company. Under this agreement, OneBeacon Asset Management, Inc. provides investment management services, including the investment and reinvestment of the Company's assets, investment advice and management services with respect to the Company's investment assets. The fee for these services is paid on a quarterly basis at rates applied to its investment portfolio.
- (G) All of the issued and outstanding common stock of the Company is owned by OneBeacon Insurance Group, LLC., a Delaware Corporation. Schedule Y, Part 1 reflects the organization of OneBeacon Insurance Group, LLC., of which the company is a member.
- (H) The Company does not own 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 hold investments in SCA entities.
- (J) The Company does not hold investments in SCA entities.

11. Debt

The Company does not have any debt obligations.

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

The Company does not participate in retirement plans, or offer a deferred compensation plan, post employment benefits or post retirement benefits.

13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations

- (A) Refer to General Interrogatory 17.
- (B) The Company has no preferred stock outstanding.
- (C) The Company has no preferred stock outstanding.

NOTES TO FINANCIAL STATEMENTS

- (D) The Company cannot pay dividends to its shareholder.
- (E) There are no restrictions placed on the Company's unassigned funds (surplus) except as noted in (I) below.
- (F) The Company is not organized as Mutual Insurance Company.
- (G) The Company is not holding stock for special purposes.
- (H) The Company has restricted surplus of \$489,484,000 resulting from ceded retroactive reinsurance. Refer to note 20(F).
- (I) The portion of unassigned funds (surplus) represented or reduced by each of the following items:

(a) Unrealized gains and losses	\$ 0
(b) Non admitted asset values	\$ 0
(c) Separate account balances	\$ 0
(d) Asset valuation reserve	\$ 0
(e) Provision for reinsurance	\$ 0
- (J) The Company did not issue surplus notes.
- (K) The Company did not effect a quasi-reorganization.
- (L) Refer to 13 (K).

14. Contingencies

- (A) Refer to Note 6 and Note 10 (I).
- (B) There are no assessments that could have a material financial effect on the Company.
- (C) There were no gain contingencies.
- (D) Various claims have been made against the Company in the normal course of its business. Based on all information available, the Company believes that the outcome of such claims will not, in the aggregate, have a material effect on the Company's statutory financial statements.

15. Leases

The Company is not a party to any leasing arrangements.

16. Information About Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk

The Company does not hold investments with significant off-balance sheet risk or financial instruments with concentration of credit risk. The loan backed securities, mortgage backed securities owned as of December 31, 2002 are of a high quality and are valued utilizing the prospective method with the prepayment/default assumptions and fair value prices obtained from Bear Sterns. As such, the Company believes that the carrying value of these securities equate to fair value and therefore there is no significant risk related to these investment holdings.

17. Sale, Transfer and Servicing of Financial Assets and Extinguishment of Liabilities

- (A) The Company does not have premium receivables on its balance sheet.
- (B) The Company has not entered into any transfer of servicing of financial asset transactions.
- (C) The Company's investment strategy does not include wash sales and the Company did not have any wash sales during the year ended December 31, 2002.

18. Gain or Loss to Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

The Company has no Uninsured or Partially Insured A&H Plans.

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

The Company did not write any direct premiums through managing general agents or third party administrators.

20. Other Items

NOTES TO FINANCIAL STATEMENTS

- (A) There were no extraordinary items requiring disclosure.
- (B) The Company did not enter into any troubled debt restructuring arrangements.
- (C) There were no other unusual items requiring disclosure in these notes.
- (D) The Company does not have premium receivables on its balance sheet.
- (E) Refer to note 25.
- (F) The Company does not write Multiple Peril Crop Insurance.
- (G) The Company does not hold Mortgage Loans.
- (H) The Company does not have Health Care Receivables.
- (I) The Company did not incur losses in connection with the September 11 attacks.
- (J) The Company does not hold investments in real estate.
- (K) The Company does not issue participating policies.
- (L) Refer to Note 1, (C) 3.
- (M) The Company did not enter into any noncash transactions in 2002.

21. Events Subsequent

The Company did not experience any Type I and Type II Events Subsequent.

22. Reinsurance

- (A) Unsecured Reinsurance Recoverable

OneBeacon Insurance Company - F.E.I.N. # 23-1502700

- (B) Reinsurance Recoverable in Dispute

The Company has not experienced any disputes with its reinsurer.

- (C) Reinsurance Assumed and Ceded

1.

	(000's Omitted)					
	ASSUMED REINSURANCE		CEDED REINSURANCE		NET	
	Premium <u>Reserve</u>	Commission <u>Equity</u>	Premium <u>Reserve</u>	Commission <u>Equity</u>	Premium <u>Reserve</u>	Commission <u>Equity</u>
Affiliates	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
All Other	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Direct Unearned Premium Reserve \$ 0

- 2. The Company did not accrue additional commissions or return commissions, predicated on loss experience or any other form of profit sharing arrangement.

- (D) Uncollectible Reinsurance

The Company wrote off an insignificant amount of specifically identifiable reinsurance recoverable balances to previously recorded reserves during 2002.

- (E) Commutation of Ceded Reinsurance

The Company did not commute any significant ceded reinsurance balances during 2002.

- (F) Retroactive Reinsurance

Effective June 1, 2001, the Company entered into a reinsurance agreement (the OneBeacon Agreement) with the OneBeacon Insurance Company and affiliates (formerly CGU Insurance Company and affiliates) to provide up to \$2.5 billion of protection against asbestos, environmental, and certain other latent exposures and up to \$570.0 million in excess of loss reinsurance protection against adverse development on accident year 2000 and prior losses to OneBeacon. The Company received total consideration of \$1,597 million for the OneBeacon

NOTES TO FINANCIAL STATEMENTS

Agreement.

Effective June 1, 2001, the Company entered into reinsurance agreements with National Indemnity Company (the NICO Cover) and General Re Corporation (the GRC Cover) which provide the Company with significant reinsurance protections against unanticipated increases in recorded reserves for insurance losses and loss adjustment expenses. The NICO Cover provides up to \$2.5 billion of protection against the Company's asbestos, environmental, and certain other latent exposures. The GRC Cover provides up to \$570.0 million in excess of loss reinsurance protection against adverse development on accident year 2000 and prior losses. The NICO Cover had an inception date of January 1, 2000 but was not consummated until June 1, 2001. During the intervening period, the base transaction premium was adjusted for losses and loss adjustment expenses paid, reinsurance recoverable claims received, salvage and subrogation recoveries and an interest charge due to NICO, which was based on the average adjusted base transaction premium.

The Company purchased the NICO and GRC Covers for total consideration of \$1,322.3 million and \$275.0 million, respectively. The NICO and GRC Covers provide coverage for insurance liabilities which occurred prior to the effective dates of the agreements and, thus, are accounted for as a retroactive reinsurance in accordance with SSAP No. 62. As such, the Company has recorded the total amount of loss reserves ceded under these agreements separately as a contra-liability on the balance sheet with any corresponding retroactive reinsurance gain recorded as a write-in item in miscellaneous income on the statement of income. The gain to surplus, resulting from the retroactive reinsurance gain, is being segregated from unassigned funds (surplus), until such time as funds received from NICO and GRC exceed the consideration paid to each reinsurer.

1.		<u>General Re Corp.</u>	<u>National Indemnity Company</u>
	As:	<u>Assumed</u>	<u>Assumed</u>
		(000's omitted)	
a.	Reserves Transferred:		
	1. Initial Reserves	\$170,000	\$955,102
	2. Adjustments- Prior Year (s)	0	516,434
	3. Adjustments- Current Year	<u>361,700</u>	<u>(93,520)</u>
	4. Current Total	\$531,700	\$1,378,016
b.	Consideration Paid or Received:		
	1. Initial Consideration	\$275,000	\$1,322,321
	2. Adjustments- Prior Year (s)	0	0
	3. Adjustments- Current Year	<u>0</u>	<u>0</u>
	4. Current Total	\$275,000	\$1,322,321
c.	Paid Losses Reimbursed or Recovered:		
	1. Prior Year (s)	\$ 0	\$ 83,568
	2. Current Year	<u>0</u>	<u>93,520</u>
	3. Current Total	\$ 0	\$ 177,088
d.	Special Surplus from Retroactive Reinsurance:		
	1. Initial Surplus Gain or (Loss)	\$(105,000)	\$(367,219)
	2. Adjustments- Prior Year (s)	361,700	600,003
	3. Adjustments- Current Year	<u>0</u>	<u>0</u>
	4. Current Year Restricted Surplus	\$256,700	\$232,784
	5. Cumulative Total Transferred to Unassigned Funds	\$ 0	\$ 0
e.	<u>Company</u>	<u>NAIC Code</u>	<u>Authorized</u>
	National Indemnity Co.	20087	yes
	General Re Corp.	22039	yes
	Total		<u>1,909,716</u>
			<u>Ceded Amount (000's omitted)</u>
			1,378,016
			<u>531,700</u>
			<u>1,909,716</u>

Below is further detail of the loss and/or loss adjustment expense reserves that have been ceded by Potomac Insurance Company during 2002 under the retroactive reinsurance agreements described above. In accordance with statutory accounting rules, the cessions are not reflected on Schedule P. Rather, the loss and loss expense reserves are reported here by line of business and accident year to facilitate loss discounting under Internal Revenue Code Sec. 846.

(In thousands)

Accident	Homeowners/ <u>Farmowners</u>	Private Passenger Auto <u>Liability/Medical</u>	Commercial Auto/Truck <u>Liability/Medical</u>	Workers' <u>Compensation</u>
<u>Year</u>				
Prior	641	10,720	1,815	53,658
1993	65	0	0	381

NOTES TO FINANCIAL STATEMENTS

1994	20	0	4	10,288
1995	0	0	6	10,119
1996	5	0	11	10,148
1997	0	0	0	10,185
1998	150	0	33	30,233
1999	75	1,698	4,166	42,200
2000	0	0	0	80,511
2001	0	0	0	0
<u>2002</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	956	12,418	6,035	247,723

Accident Year	Commercial Multiple Peril	Medical Malpractice- Occurrence	Special Liability	Other Liability Occurrence	Other Liability Claims Made
Prior	56,912	966	1,159	698,280	60
1993	466	0	200	425	0
1994	3,604	0	278	62	0
1995	7,020	0	265	223	0
1996	8,647	0	485	45	0
1997	20,753	0	-304	10,010	0
1998	34,602	0	381	14,711	0
1999	100,127	0	0	20,401	0
2000	61,065	0	0	51,019	0
2001	0	0	0	4	0
<u>2002</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	293,196	966	2,464	795,180	60

Accident Year	Special Property	Auto Physical Damage	Fidelity, Surety	Other (including Credit, Accident and Health)
Prior	7,513	278	226	181
2001	0	0	0	1
2002	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	7,513	278	226	182

Accident Year	Nonproportional Assumed Property	Nonproportional Assumed Liability	Products Liability- Occurrence	Summary (All Schedule P Lines)
Prior	4	69,859	469,386	1,371,650
1993	0	1,088	8	2,633
1994	0	185	35	14,476
1995	0	78	-22	17,689
1996	0	309	91	19,741
1997	0	346	38	41,028
1998	0	374	66	80,550
1999	1	289	0	168,960
2000	0	384	0	192,984
2001	0	0	0	5
<u>2002</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	5	72,912	469,602	1,909,716

23. Retrospectively Rated Contracts and Contracts Subject to Redetermination

The Company does not write loss sensitive business.

24. Change in Incurred Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessary based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability maybe in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

Incurred losses and loss adjustment expenses attributable to insured events of prior years increased by \$1,914 million in 2001 primarily in Commercial Multi-peril, Other Liability, Nonproportional Assumed Liability Reinsurance, and Products Liability. This increase is a result of the OneBeacon Agreement. See Note 22 (F).

25. Intercompany Pooling Agreements

The Company participates in a Reinsurance Agreement with an affiliate, OneBeacon Insurance Company (OBIC), the lead company in the CGU Reinsurance (Pooling) Agreement, pursuant to which, the Company cedes 100% of its Direct

NOTES TO FINANCIAL STATEMENTS

Underwriting business to OBIC. The Company does not participate in the OneBeacon Amended and Restated Reinsurance (Pooling) Agreement nor does it assume business from unaffiliated companies.

26. Structured Settlements

The Company has not purchased any annuities under structured settlement arrangements.

27. High Deductibles

The Company does not write high deductible policies.

28. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

The Company does not discount liabilities for unpaid losses or unpaid loss adjustment expenses.

29. Asbestos/Environmental Reserves

Reserves for asbestos and environmental exposures are covered by a \$2.5 billion reinsurance cover purchased by OneBeacon on June 1, 2001 from National Indemnity (NICO), a Berkshire Hathaway company, rated A++ by A.M. Best. During 2001, the Company increased its estimate of gross asbestos and environmental loss reserves to more conservatively reflect the ultimate cost of settling these exposures. Such exposures are covered by the NICO treaty. The Company estimates that it has exhausted approximately \$1,771 million of the \$2.5 billion coverage provided by the NICO Cover at December 31, 2002.

ASBESTOS CLAIMS

The Company has exposure to asbestos claims arising predominantly from commercial liability policies written prior to 1986. The following table sets forth the Company's estimate of ultimate asbestos liabilities on a gross and net of reinsurance basis:

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Gross of reinsurance					
Beginning Res.	\$	\$	\$	\$ 0	\$678,783,305
Incd Loss - LAE				748,835,331	0
Pd Loss - LAE				<u>70,052,026</u>	<u>31,095,856</u>
Ending Res.				\$678,783,305	\$647,687,449
Net of Reinsurance					
Beginning Res.	\$	\$	\$	\$ 0	\$678,783,305
Incd Loss - LAE				748,835,331	0
Pd Loss - LAE				<u>70,052,026</u>	<u>31,095,856</u>
Ending Reserves:				\$678,783,305	\$647,687,449

The Company holds IBNR reserves for reported and unreported claims and allocated loss adjustment expenses (including coverage dispute costs)

Gross of Reinsurance Basis		\$ 614,882,258
Net of Reinsurance Basis		\$ 614,882,258

ENVIRONMENTAL CLAIMS

The Company has exposure to environmental pollution claims arising predominately from commercial liability policies written prior to 1986. The following table sets forth the Company's estimate of ultimate asbestos liabilities on a gross and net of reinsurance basis:

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Gross of reinsurance					
Beginning Res.	\$	\$	\$	\$ 0	\$561,432,709
Incd Loss - LAE				599,494,076	0
Pd Loss - LAE				<u>38,062,367</u>	<u>39,530,710</u>
Ending Res.				\$561,431,709	521,900,999

NOTES TO FINANCIAL STATEMENTS

Net of
Reinsurance

Beginning Res.	\$	\$	\$	\$	0	\$561,432,709
Incd Loss - LAE					599,494,076	0
Pd Loss - LAE					<u>38,062,367</u>	<u>39,530,710</u>
Ending Res.					\$561,431,709	\$521,900,999

The Company holds IBNR reserves for reported and unreported claims and allocated loss adjustment expenses (including coverage dispute costs)

Gross of Reinsurance Basis	\$	478,392,874
Net of Reinsurance Basis	\$	478,391,874
(A) Refer to Note 22(F).		

30. Subscriber Savings Account

The Company is not a reciprocal insurance company and, as such, this note does not apply.

31. Financial Guaranty Insurance Exposures

The Company has no financial guaranty insurance exposures.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	1,354,841	15.150	1,354,841	15.150
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies	3,014,548	33.709	3,014,548	33.709
1.3 Foreign government (including Canada, excluding mortgage-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations				
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations				
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (including residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA				
1.512 Issued by FNMA and FHLMC				
1.513 Privately issued				
1.52 CMOs and REMICs:				
1.521 Issued by FNMA and FHLMC				
1.522 Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC				
1.523 All other privately issued				
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)				
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds				
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
5. Real estate investments:				
5.1 Property occupied by company				
5.2 Property held for production of income (includes \$ 0 of property acquired in satisfaction of debt)				
5.3 Property held for sale (\$ 0 including property acquired in satisfaction of debt)				
6. Policy loans				
7. Receivables for securities	270	0.003	270	0.003
8. Cash and short-term investments	4,573,265	51.138	4,573,265	51.138
9. Other invested assets				
10. Total invested assets	8,942,924	100.000	8,942,924	100.000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [X] No []
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [X] No [] N/A []
- 1.3 State Regulating? _____
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [] No [X]
- 2.2 If yes, date of change:
If not previously filed, furnish herewith a certified copy of the instrument as amended. _____
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 05/15/2002
- 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. 12/31/2001
- 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). 01/25/2000
- 3.4 By what department or departments? Pennsylvania Insurance Department
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes [] No [X]
4.12 renewals? Yes [] No [X]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [] No [X]
4.22 renewals? Yes [] No [X]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [] No [X]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile
	00000	
	00000	
	00000	
	00000	
	00000	

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action either formal or informal, if a confidentiality clause is part of the agreement) Yes [] No [X]
- 6.2 If yes, give full information _____
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [X] No []
- 7.2 If yes,
- 7.21 State the percentage of foreign control 100 %
- 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager, or attorney-in-fact)

1 Nationality	2 Type of Entity
Bermuda	Corporation

GENERAL INTERROGATORIES
(continued)

8. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
PricewaterhouseCoopers, LLP
160 Federal Street, Boston, MA 02110
9. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification? Richard I. Fein, FCAS, MAAA
PricewaterhouseCoopers, LLP
1177 Avenue of the Americas, New York, NY 10036
10. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 10.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?
.....
.....
- 10.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [] No [X]
- 10.3 Have there been any changes made to any of the trust indentures during the year? Yes [] No [X]
- 10.4 If answer to (10.3) is yes, has the domiciliary or entry state approved the changes? Yes [] No [] N/A [X]

BOARD OF DIRECTORS

11. 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 []
12. 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 []
13. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or is likely to conflict with the official duties of such person? Yes [X] No []

FINANCIAL

- 14.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 14.11 To directors or other officers \$ _____
- 14.12 To stockholders not officers \$ _____
- 14.13 Trustees, supreme or grand (Fraternal only) \$ _____
- 14.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 14.21 To directors or other officers \$ _____
- 14.22 To stockholder not officers \$ _____
- 14.23 Trustees, supreme or grand (Fraternal only) \$ _____
- 15.1 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]
- 15.2 If yes, state the amount thereof at December 31 of the current year:
- 15.21 Rented from others \$ _____
- 15.22 Borrowed from others \$ _____
- 15.23 Leased from others \$ _____
- 15.24 Other \$ _____
- Disclose in Notes to Financial the nature of each obligation.
- 16.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [] No [X]
- 16.2 If answer is yes:
- 16.21 Amount paid as losses or risk adjustment \$ _____
- 16.22 Amount paid as expenses \$ _____
- 16.23 Other amounts paid \$ _____

GENERAL INTERROGATORIES
(continued)
INVESTMENT

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

Class	1 Number of Shares Authorized	2 Number of Shares Outstanding	3 Par Value Per Share	4 Redemption Price If Callable	5 Is Dividend Rate Limited?	6 Are Dividends Cumulative?
Preferred					Yes [] No [X]	Yes [] No [X]
Common	1,000,000	1,000,000	2	XXX	XXX XXX	XXX XXX

18.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 2 - Special Deposits? Yes [X] No []

18.2 If no, give full and complete information, relating thereto 0
0

19.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E - Part 2 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 15.1). Yes [] No [X]

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

19.21 Loaned to others	\$ _____
19.22 Subject to repurchase agreements	\$ _____
19.23 Subject to reverse repurchase agreements	\$ _____
19.24 Subject to dollar repurchase agreements	\$ _____
19.25 Subject to reverse dollar repurchase agreements	\$ _____
19.26 Pledged as collateral	\$ _____
19.27 Placed under option agreements	\$ _____
19.28 Letter stock or securities restricted as to sale	\$ _____
19.29 Other	\$ _____

19.3 For each category above, if any of these assets are held by other, identify by whom held:

19.31 _____

19.32 _____

19.33 _____

19.34 _____

19.35 _____

19.36 _____

19.37 _____

19.38 _____

19.39 _____

For categories (19.21) and (19.23) above, and for any securities that were made available for use by another person during the period covered by this statement, attach a schedule as shown in the instructions to the annual statement

19.4 For category (19.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

20.2 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.

21.1 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]

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

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

22.01 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

GENERAL INTERROGATORIES
(continued)
INVESTMENT

22.02 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)

22.03 Have there been any changes, including name changes, in the custodian(s) identified in 22.01 during the current year? Yes [] No [X]

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

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

22.05 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
	ONEBEACON ASSET MANAGEMENT	One Beacon St., Boston, MA 02108

OTHER

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

23.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

1 Name	2 Amount Paid
NONE	\$
	\$
	\$
	\$

24.1 Amount of payments for legal expenses, if any? \$ _____

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

1 Name	2 Amount Paid
NONE	\$
	\$
	\$
	\$

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

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

1 Name	2 Amount Paid
NONE	\$
	\$
	\$
	\$

**GENERAL INTERROGATORIES
(continued)**

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? YES [] NO [X]
- 1.2 If yes, indicate premium earned on U. S. business only. \$ _____
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$ _____
- 1.31 Reason for excluding _____
-
- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. \$ _____
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance. \$ _____
- 1.6 Individual policies:
- Most current three years:
- 1.61 Total premium earned \$ _____
- 1.62 Total incurred claims \$ _____
- 1.63 Number of covered lives \$ _____
- All years prior to most current three years:
- 1.64 Total premium earned \$ _____
- 1.65 Total incurred claims \$ _____
- 1.66 Number of covered lives \$ _____
- 1.7 Group policies:
- Most current three years:
- 1.71 Total premium earned \$ _____
- 1.72 Total incurred claims \$ _____
- 1.73 Number of covered lives \$ _____
- All years prior to most current three years:
- 1.74 Total premium earned \$ _____
- 1.75 Total incurred claims \$ _____
- 1.76 Number of covered lives \$ _____
- 2.1 Does the reporting entity issue both participating and non-participating policies? YES [] NO [X]
- 2.2 If yes, state the amount of calendar year premiums written on:
- 2.21 Participating \$ _____
- 2.22 Non-participating policies \$ _____
3. For Mutual Reporting Entities and Reciprocal Exchange only:
- 3.1 Does the reporting entity issue assessable policies? YES [] NO [X]
- 3.2 Does the reporting entity issue non-assessable policies? YES [] NO [X]
- 3.3 If assessable policies are issued, what is the extent of the contingent liability of the policyholders? \$ _____
- 3.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums. \$ _____
4. For Reciprocal Exchanges Only:
- 4.1 Does the exchange appoint local agents? YES [] NO [X]
- 4.2 If yes, is the commission paid:
- 4.21 Out of Attorney's-in-fact compensation YES [] NO [] N/A [X]
- 4.22 As a direct expense of the exchange YES [] NO [] N/A [X]
- 4.3 What expenses of the Exchange are not paid out of the compensation of the Attorney-in-fact? _____
- 4.4 Has an Attorney-in-fact compensation, contingent on fulfillment of certain conditions been deferred? YES [] NO [X]
- 4.5 If yes, give full information _____
- 5.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit of loss: The Company purchases Casualty Clash/Catastrophe reinsurance that provides coverage of \$55,000,000 xs \$5,000,000 in any one casualty catastrophe including Worker's Compensation.
- 5.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process: The Company's predominant Catastrophe exposure is from windstorm along the coastal region of the northeast states. Insured exposures include various personal and commercial lines of business. The Company calculates a probable maximum loss for this exposure using Risklink software (from RMS), with additional estimates provided by our reinsurance broker (AIR/catrader and EQE) and reinsurers.
- 5.3 What provision has this reporting entity made (such as catastrophic reinsurance program) to protect itself from an excessive loss arising from the types of concentrations of insured exposures comprising its probable maximum property insurance loss? The Company has purchased high limit catastrophe reinsurance as protection against large property losses
- 5.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? YES [X] NO []
- 5.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to unreinsured catastrophic loss N/A
- 6.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract which includes a provision which would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or similar provisions)? YES [] NO [X]
- 6.2 If yes, indicate the number of reinsurance contracts containing such provisions. _____

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES (Continued)

- 7.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? YES [] NO [X]
- 7.2 If yes, give full information
8. If the reporting entity has assumed risks from another entity, there should be a charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? YES [X] NO [] N/A []
- 9.1 Has the reporting entity guaranteed policies issued by any other entity and now in force? YES [] NO [X]
- 9.2 If yes, give full information
- 10.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 10.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- | | | |
|--|---|----------|
| | 10.11 Unpaid losses | \$ _____ |
| | 10.12 Unpaid underwriting expenses (including loss adjustment expenses) | \$ _____ |
- 10.2 Of the amount on Line 10.3 of the asset schedule, Page 2, state the amount which is secured by letters of credit, collateral and other funds? \$ _____
- 10.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation are premium or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? YES [] NO [] N/A [X]
- 10.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
- | | | |
|--|------------|---------|
| | 10.41 From | _____ % |
| | 10.42 To | _____ % |
- 10.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium or promissory notes taken by a reporting entity, or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? YES [] NO [X]
- 10.6 If yes, state the amount thereof at December 31 of current year:
- | | | |
|--|----------------------------------|----------|
| | 10.61 Letters of Credit | \$ _____ |
| | 10.62 Collateral and other funds | \$ _____ |
- 11.1 What amount of installment notes is owned and now held by the reporting entity? \$ _____
- 11.2 Have any of these notes been hypothecated, sold or used in any manner as security for money loaned within the past year? YES [] NO [X]
- 11.3 If yes, what amount? \$ _____
- 12.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ _____
- 12.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? YES [] NO [X]
- 12.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. _____
- 13.1 Has the reporting entity guaranteed any financial premium accounts? YES [] NO [X]
- 13.2 If yes, give full information
- 14.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? YES [] NO [X]
- | | | |
|--|---|----------|
| | 14.11 Name of real estate holding company | _____ |
| | 14.12 Number of parcels involved | _____ |
| | 14.13 Total book/adjusted carrying value | \$ _____ |
- 14.2 If yes, provide explanation
- 15.1 Does the reporting entity write any warranty business? YES [] NO [X]
 If yes, disclose the following information for each of the following types of warranty coverage:
- | | 1
Direct Losses
Incurred | 2
Direct Losses
Unpaid | 3
Direct Written
Premium | 4
Direct Premium
Unearned | 5
Direct Premium
Earned |
|------------------|--------------------------------|------------------------------|--------------------------------|---------------------------------|-------------------------------|
| 15.11 Home | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| 15.12 Products | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| 15.13 Automobile | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| 15.14 Other* | \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ |

* Disclose type of coverage: 00

FIVE-YEAR HISTORICAL DATA

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

	1 2002	2 2001	3 2000	4 1999	5 1998
Gross Premiums Written (Page 8, Part 1B, Cols. 1,2 & 3)					
1. Liability lines (Lines 11.1,11.2,16,17.1,17.2,18.1,18.2,19.1,19.2 & 19.3,19.4)	(5,429)	1,207,800,520	664,804	4,118,110	12,536,975
2. Property lines (Lines 1, 2, 9, 12, 21, & 26)		728	134,255	310,814	2,278,044
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	(10,551)	389,464,198	370,532	2,436,120	7,664,076
4. All other lines (Lines 6,10,13,14,15,23,24,28,29 & 33)				(67,922)	103,975
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)				(635)	13,346
6. Total (Line 34)	(15,980)	1,597,265,446	1,169,591	6,796,487	22,596,416
Net Premiums Written (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1,11.2,16,17.1,17.2,18.1,18.2,19.1,19.2 & 19.3,19.4)		1,207,856,800		(1,972,347)	4,375,361
8. Property lines (Lines 1, 2, 9, 12, 21, & 26)				(685,185)	1,545,894
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)		389,464,200		(1,347,204)	2,622,965
10. All other lines (Lines 6,10,13,14,15,23,24,28,29 & 33)				(67,922)	103,975
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)				(636)	13,346
12. Total (Line 34)		1,597,321,000		(4,073,294)	8,661,541
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)		(489,484,000)			(2,099,058)
14. Net investment gain (loss) (Line 11)	538,396	473,583	(132,434)	708,545	1,764,769
15. Total other income (Line 15)	8,840	489,492,670	(13,421)	7,326	(40,527)
16. Dividends to policyholders (Line 17)					90,345
17. Federal and foreign income taxes incurred (Line 19)	(164,971)	82,449	(130,379)		(94,211)
18. Net income (Line 20)	712,207	399,804	(15,476)	715,871	(370,950)
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding Protected Cell (Page 2, Line 26, Col. 3)	8,996,798	8,340,074	7,861,546	7,875,217	22,005,535
20. Agents' balances or uncollected premiums (Page 2, Col. 3)					
20.1 In course of collection (Line 10.1)					1,219,027
20.2 Deferred and not yet due (Line 10.2)					1,026,716
20.3 Accrued retrospective premiums (Line 10.3)					
21. Total liabilities excluding Protected Cell (Page 3, Line 24)	42,911	98,400	19,678	17,872	15,023,614
22. Losses (Page 3, Lines 1 and 2)	1,555,326,821	1,607,033,355			7,907,749
23. Loss adjustment expenses (Page 3, Line 3)	354,384,639	396,202,779			1,574,804
24. Unearned premiums (Page 3, Line 9)					4,073,294
25. Capital paid up (Page 3, Lines 28 & 29)	2,350,000	2,350,000	2,350,000	2,350,000	2,350,000
26. Surplus as regards policyholders (Page 3, Line 35)	8,953,887	8,241,674	7,841,869	7,857,345	6,981,921
Risk-Based Capital Analysis					
27. Total adjusted capital	8,953,887	8,241,674	7,841,869	7,857,345	6,981,921
28. Authorized control level risk-based capital	188,888,700	194,035,161	11,945	26,867	925,612
Percentage Distribution of Cash and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 9, Col. 3) x 100.0					
29. Bonds (Line 1)	48.9	55.4	71.9	27.6	88.1
30. Stocks (Lines 2.1 & 2.2)					2.0
31. Mortgage loans on real estate (Line 3.1 and 3.2)					
32. Real estate (Lines 4.1, 4.2 & 4.3)					
33. Cash and short-term investments (Line 5)	51.1	44.6	28.1	72.4	9.9
34. Other invested assets (Line 6)					
35. Receivable for securities (Line 7)					
36. Aggregate write-ins for invested assets (Line 8)					
37. Cash and invested assets (Line 9)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
38. Affiliated bonds, (Sch. D, Summary, Line 25, Col. 1)					
39. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)					
40. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 2)					
41. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 11)					
42. Affiliated mortgage loans on real estate					
43. All other affiliated					
44. Total of above Lines 38 to 43					
45. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 44 above divided by Page 3, Col. 1, Line 35 x 100.0)					

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2002	2 2001	3 2000	4 1999	5 1998
Capital and Surplus Accounts (Page 4)					
46. Net unrealized capital gains (losses) (Line 23)				(134,550)	(693,444)
47. Dividends to stockholders (Line 34)					
48. Change in surplus as regards policyholders for the year (Line 37)	712,215	399,804	(15,476)	875,424	(1,528,849)
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
49. Liability lines (Lines 11.1,11.2,16,17.1,17.2,18.1,18.2,19.1,19.2 & 19.3,19.4)	49,187,725	62,363,956	5,154,389	11,845,133	5,975,725
50. Property lines (Lines 1, 2, 9, 12, 21 & 26)	1,362,340	349,693	372,530	1,139,837	1,791,456
51. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	2,399,437	5,633,200	1,703,621	4,978,025	3,458,168
52. All other lines (Lines 6,10,13,14,15,23,24,28,29 & 33)	29,896	15,010		21,660	4,391
53. Nonproportional reinsurance lines (Lines 30, 31 & 32)	2,618,856	1,742,443		343,425	159,757
54. Total (Line 34)	55,598,254	70,104,302	7,230,540	18,328,080	11,389,497
Net Losses Paid (Page 9, Part 2, Col. 4)					
55. Liability lines (Lines 11.1,11.2,16,17.1,17.2,18.1,18.2,19.1,19.2 & 19.3,19.4)	45,896,343	57,825,317		5,740,742	3,224,409
56. Property lines (Lines 1, 2, 9, 12, 21 & 26)	1,361,397	282,085		117,534	914,093
57. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,759,844	4,478,754		1,684,389	1,676,641
58. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	29,896	15,010		21,660	4,391
59. Nonproportional reinsurance lines (Lines 30, 31 & 32)	2,618,856	1,742,443		343,425	159,757
60. Total (Line 34)	51,666,336	64,343,609		7,907,750	5,979,291
Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
61. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
62. Losses incurred (Line 2)		104.6			77.6
63. Loss expenses incurred (Line 3)		26.0			14.5
64. Other underwriting expenses incurred (Line 4)					32.5
65. Net underwriting gain (loss) (Line 8)		(30.6)			(24.5)
Other Percentages					
66. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 34 x 100.0)		(30.6)		(0.2)	32.5
67. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)		130.6			92.1
68. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 34, divided by Page 3, Line 35, Col. 1 x 100.0)		19,381.0		(51.8)	124.1
One Year Loss Development (000 omitted)					
69. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)	(8)	1,892,807			1,251
70. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 69 above divided by Page 4, Line 21, Col. 1 x 100.0)	(0.1)	24,138.0			14,700.0
Two Year Loss Development (000 omitted)					
71. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2 - Summary, Line 12, Col. 12)	2,065,509	1,761,202			1,203
72. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 71 above divided by Page 4, Line 21, Col. 2 x 100.0)	26,339.5	22,415.0			15,800.0

SCHEDULE D - SUMMARY BY COUNTRY

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

Description		1 Book/Adjusted Carrying Value	2 Fair Value (a)	3 Actual Cost	4 Par Value of Bonds
BONDS					
Governments (Including all obligations guaranteed by governments)	1. United States	4,369,389	4,349,362	4,383,827	4,200,000
	2. Canada				
	3. Other Countries				
	4. Totals	4,369,389	4,349,362	4,383,827	4,200,000
States, Territories and Possessions (Direct and guaranteed)	5. United States				
	6. Canada				
	7. Other Countries				
	8. Totals				
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States				
	10. Canada				
	11. Other Countries				
	12. Totals				
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States				
	14. Canada				
	15. Other Countries				
	16. Totals				
Public Utilities (unaffiliated)	17. United States				
	18. Canada				
	19. Other Countries				
	20. Totals				
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States				
	22. Canada				
	23. Other Countries				
	24. Totals				
Parent, Subsidiaries and Affiliates	25. Totals				
	26. Total Bonds	4,369,389	4,349,362	4,383,827	4,200,000
PREFERRED STOCKS					
Public Utilities (unaffiliated)	27. United States				
	28. Canada				
	29. Other Countries				
	30. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	31. United States				
	32. Canada				
	33. Other Countries				
	34. Totals				
Industrial and Miscellaneous (unaffiliated)	35. United States				
	36. Canada				
	37. Other Countries				
	38. Totals				
Parent, Subsidiaries and Affiliates	39. Totals				
	40. Total Preferred Stocks				
COMMON STOCKS					
Public Utilities (unaffiliated)	41. United States				
	42. Canada				
	43. Other Countries				
	44. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	45. United States				
	46. Canada				
	47. Other Countries				
	48. Totals				
Industrial and Miscellaneous (unaffiliated)	49. United States				
	50. Canada				
	51. Other Countries				
	52. Totals				
Parent, Subsidiaries and Affiliates	53. Totals				
	54. Total Common Stocks				
	55. Total Stocks				
	56. Total Bonds and Stocks	4,369,389	4,349,362	4,383,827	

(a) The aggregate value of bonds which are valued at other than actual fair value is \$ 3,014,548.**SCHEDULE D - VERIFICATION BETWEEN YEARS**

1. Book/adjusted carrying value of bonds and stocks, prior year	<u>4,598,104</u>	6. Foreign Exchange Adjustment:	
2. Cost of bonds and stocks acquired, Column 6, Part 3	<u>3,749,983</u>	6.1 Column 17, Part 1	
3. Increase (decrease) by adjustment:		6.2 Column 13, Part 2, Section 1	
3.1 Column 16, Part 1	<u>(7,608)</u>	6.3 Column 11, Part 2, Section 2	
3.2 Column 12, Part 2, Section 1		6.4 Column 11, Part 4	
3.3 Column 10, Part 2, Section 2		7. Book/adjusted carrying value at end of current period	<u>4,369,389</u>
3.4 Column 10, Part 4	<u>(33,714)</u>	8. Total valuation allowance	
	<u>(41,322)</u>	9. Subtotal (Lines 7 plus 8)	<u>4,369,389</u>
4. Total gain (loss), Column 14, Part 4	<u>277,655</u>	10. Total nonadmitted amounts	
5. Deduct consideration for bonds and stocks disposed of Column 6, Part 4	<u>4,215,031</u>	11. Statement value of bonds and stocks, current period	<u>4,369,389</u>

SCHEDULE P-ANALYSIS OF LOSSES AND LOSS EXPENSES

SCHEDULE P-PART 1-SUMMARY

(\$000 omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments							12 Number of Claims Reported - Direct and Assumed	
	1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10 Salvage and Subrogation Received		11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)
				4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded			
1. Prior	X X X	X X X	X X X	50,466		37,197			3,828		91,491	X X X
2. 1993				564		509					1,073	X X X
3. 1994				(534)		110					(424)	X X X
4. 1995				298		137		75			358	X X X
5. 1996				590	446	239		130			253	X X X
6. 1997				5,020	4,327	439		388			744	X X X
7. 1998				863	574	218		74			433	X X X
8. 1999				1,800	1,982	274		204			(112)	X X X
9. 2000				2,168	2,168	241		231			10	X X X
10. 2001	1,597,379	58	1,597,321	193	193	36		32			4	X X X
11. 2002	(16)	(16)				11					11	X X X
12. Totals	X X X	X X X	X X X	61,428	9,692	39,411	1,134	3,828			93,841	X X X

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding Direct and Assumed
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21 Direct and Assumed	22 Ceded			
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded					
1. Prior	109,157		973,829		45,444		225,770		17,450			1,371,650	X X X
2. 1993	2,223		274		90		46					2,633	X X X
3. 1994	12,583		297		1,563		33					14,476	X X X
4. 1995	15,230		329		2,118		12					17,689	X X X
5. 1996	17,274		279		2,165		23					19,741	X X X
6. 1997	35,910	1,129	2,134	1,172	5,349	106	440	318				41,108	X X X
7. 1998	69,878	1,502	2,748	122	9,528	84	462	38				80,870	X X X
8. 1999	142,462	2,681	8,443	351	19,698	201	1,258	68				168,560	X X X
9. 2000	138,600	1,223	31,618	(239)	18,779	56	5,048	21				192,984	X X X
10. 2001	9	8	6	6	4							5	X X X
11. 2002					2	2							X X X
12. Totals	543,326	6,543	1,019,957	1,412	104,740	449	233,092	445	17,450			1,909,716	X X X

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred / Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1. Prior	X X X	X X X	X X X	X X X	X X X	X X X			X X X	1,082,986	288,664
2. 1993	3,706		3,706							2,497	136
3. 1994	14,052		14,052							12,880	1,596
4. 1995	18,124	77	18,047							15,559	2,130
5. 1996	20,570	576	19,994							17,553	2,188
6. 1997	49,292	7,440	41,852							35,743	5,365
7. 1998	83,697	2,394	81,303							71,002	9,868
8. 1999	173,935	5,487	168,448							147,873	20,687
9. 2000	196,454	3,460	192,994							169,234	23,750
10. 2001	248	239	9	0.016	412.069	0.001				1	4
11. 2002	13	2	11	(81.250)	(12.500)						
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	1,555,328	354,388

Note: Parts 2 and 4 are gross of all discounting, including tabular discounting. Part 1 is gross of only nontabular discounting, which is reported in Columns 32 and 33 of Part 1. The tabular discount, if any, is reported in the Notes to Financial Statements which will reconcile Part 1 with Parts 2 and 4.

SCHEDULE P-PART 2-SUMMARY

Years in Which Losses Were Incurred	Incurred Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										DEVELOPMENT	
	1	2	3	4	5	6	7	8	9	10	11	12
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	One Year	Two Year
1. Prior									1,553,804	1,525,113	(28,691)	1,525,113
2. 1993									1,010	3,706	2,696	3,706
3. 1994	X X X								13,113	14,052	939	14,052
4. 1995	X X X	X X X							16,452	18,047	1,595	18,047
5. 1996	X X X	X X X	X X X						17,608	19,994	2,386	19,994
6. 1997	X X X	X X X	X X X	X X X					38,063	41,852	3,789	41,852
7. 1998	X X X	X X X	X X X	X X X	X X X				75,477	81,303	5,826	81,303
8. 1999	X X X	X X X	X X X	X X X	X X X	X X X			163,644	168,448	4,804	168,448
9. 2000	X X X	X X X	X X X	X X X	X X X	X X X	X X X		186,355	192,994	6,639	192,994
10. 2001	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X		9	9	X X X
11. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	11	X X X	X X X
12. Totals											(8)	2,065,509

SCHEDULE P-PART 3-SUMMARY

Years in Which Losses Were Incurred	Cumulative Paid Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										11	12
	1	2	3	4	5	6	7	8	9	10	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002		
1. Prior	000								83,250	170,913	X X X	X X X
2. 1993									190	1,073	X X X	X X X
3. 1994	X X X								2	(424)	X X X	X X X
4. 1995	X X X	X X X							15	358	X X X	X X X
5. 1996	X X X	X X X	X X X						5	253	X X X	X X X
6. 1997	X X X	X X X	X X X	X X X					8	744	X X X	X X X
7. 1998	X X X	X X X	X X X	X X X	X X X				20	433	X X X	X X X
8. 1999	X X X	X X X	X X X	X X X	X X X	X X X			73	(112)	X X X	X X X
9. 2000	X X X	X X X	X X X	X X X	X X X	X X X	X X X		6	10	X X X	X X X
10. 2001	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X		4	X X X	X X X
11. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	11	X X X	X X X

SCHEDULE P-PART 4-SUMMARY

Years in Which Losses Were Incurred	Bulk and IBNR Reserves On Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										
	1	2	3	4	5	6	7	8	9	10	
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	
1. Prior										1,315,492	1,199,599
2. 1993											320
3. 1994	X X X									3,009	330
4. 1995	X X X	X X X								6,019	341
5. 1996	X X X	X X X	X X X							7,523	302
6. 1997	X X X	X X X	X X X	X X X						28,055	1,084
7. 1998	X X X	X X X	X X X	X X X	X X X					45,092	3,050
8. 1999	X X X	X X X	X X X	X X X	X X X	X X X				93,464	9,282
9. 2000	X X X	X X X	X X X	X X X	X X X	X X X	X X X			118,660	36,884
10. 2001	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X			
11. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X		

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

States, Etc.	1 Is Insurer Licensed? (Yes or No)	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
		2 Direct Premiums Written	3 Direct Premiums Earned						
1. Alabama	AL	NO							
2. Alaska	AK	NO							
3. Arizona	AZ	NO							
4. Arkansas	AR	NO							
5. California	CA	NO							
6. Colorado	CO	NO							
7. Connecticut	CT	NO							
8. Delaware	DE	NO							
9. Dist. of Columbia	DC	NO							
10. Florida	FL	NO							
11. Georgia	GA	NO							
12. Hawaii	HI	NO							
13. Idaho	ID	NO							
14. Illinois	IL	NO							
15. Indiana	IN	NO							
16. Iowa	IA	NO							
17. Kansas	KS	NO							
18. Kentucky	KY	NO							
19. Louisiana	LA	NO							
20. Maine	ME	NO							
21. Maryland	MD	NO							
22. Massachusetts	MA	NO							
23. Michigan	MI	NO							
24. Minnesota	MN	NO							
25. Mississippi	MS	NO							
26. Missouri	MO	NO							
27. Montana	MT	NO							
28. Nebraska	NE	NO							
29. Nevada	NV	NO							
30. New Hampshire	NH	NO							
31. New Jersey	NJ	NO							
32. New Mexico	NM	NO							
33. New York	NY	NO							
34. No. Carolina	NC	NO							
35. No. Dakota	ND	NO							
36. Ohio	OH	NO							
37. Oklahoma	OK	NO							
38. Oregon	OR	NO							
39. Pennsylvania	PA	YES	(15,980)	(15,952)	63,717	3,931,919	(591,123)	7,954,395	
40. Rhode Island	RI	NO							
41. So. Carolina	SC	NO							
42. So. Dakota	SD	NO							
43. Tennessee	TN	NO							
44. Texas	TX	NO							
45. Utah	UT	NO							
46. Vermont	VT	NO							
47. Virginia	VA	NO							
48. Washington	WA	NO							
49. West Virginia	WV	NO							
50. Wisconsin	WI	NO							
51. Wyoming	WY	NO							
52. American Samoa	AS	NO							
53. Guam	GU	NO							
54. Puerto Rico	PR	NO							
55. U.S. Virgin Islands	VI	NO							
56. Canada	CN	NO							
57. Aggregate other alien	OT	X X X							
58. Totals	(a) 1		(15,980)	(15,952)	63,717	3,931,919	(591,123)	7,954,395	

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

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

Allocation of premium based on location of risk.

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

OVERFLOW PAGE FOR WRITE-INS
