



# ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2002  
OF THE CONDITION AND AFFAIRS OF THE  
**COLONY SPECIALTY INSURANCE COMPANY**

NAIC Group Code 0457 0457 NAIC Company Code 36927 Employer's ID Number 34-1266871  
(Current Period) (Prior Period)

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

Country of Domicile US

Incorporated December 20, 1978 Commenced Business April 16, 1979

Statutory Home Office 52 East Gay Street, Columbus, Ohio 43215  
(Street and Number, City or Town, State and Zip Code)

Main Administrative Office 9201 Forest Hill Avenue, Suite 200, Richmond, Virginia 23235-6865 804-327-1700  
(Street and Number, City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address P.O. Box 85122, Richmond, Virginia 23285-5122  
(Street and Number, City or Town, State and Zip Code)

Primary Location of Books and Records 9201 Forest Hill Avenue, Suite 200, Richmond, Virginia 23235-6865  
(Street and Number, City or Town, State and Zip Code)  
804-327-1700  
(Area Code) (Telephone Number)

Internet Website Address www.colonyins.com

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(Street and Number, City or Town, State and Zip Code) (Area Code) (Telephone Number) (Extension)

### OFFICERS

President ..... #DALE HENRY PILKINGTON  
 Secretary ..... #SCOTT ALLEN WILSON  
 Treasurer ..... MARK WILLIAM HAUSHILL  
 Assistant Secretary ..... BYRON LOUIS LEFLORE, JR.  
 Assistant Secretary ..... #MARK TED TOROK  
 Assistant Secretary ..... JOHN PAUL YEDINY

### VICE PRESIDENTS

STEVEN PAUL EARHART  
 #GAIL THERESA KIMPFLER  
 #SCOTT ALLEN WILSON

### DIRECTORS OR TRUSTEES

MARK WILLIAM HAUSHILL  
 BYRON LOUIS LEFLORE, JR.  
 #DALE HENRY PILKINGTON  
 #JOHN WILLIAM POLAK  
 MARK EDMUND WATSON, III  
 JOHN PAUL YEDINY

State of Virginia }  
 County of City of Richmond } 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.

\_\_\_\_\_  
 #DALE HENRY PILKINGTON President  
 \_\_\_\_\_  
 #SCOTT ALLEN WILSON Secretary  
 \_\_\_\_\_  
 STEVEN PAUL EARHART Vice President

- 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 \_\_\_\_\_

Subscribed and sworn to before me this  
 15th day of February, 2003

**ASSETS**

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Columns 1 minus 2)	Net Admitted Assets
1. Bonds .....	62,543,250		62,543,250	47,649,208
2. Stocks:				
2.1 Preferred stocks (Schedule D, Part 2, Section 1) .....	600,000		600,000	600,000
2.2 Common stocks (Schedule D, Part 2, Section 2) .....	1,883,729		1,883,729	1,778,762
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens .....				
3.2 Other than first liens .....				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ ..... encumbrances) .....				
4.2 Properties held for the production of income (less \$ ..... encumbrances) .....				
4.3 Properties held for sale (less \$ ..... encumbrances) .....				
5. Cash (\$ ..... (7,339) Schedule E, Part 1) and short-term investments (\$ ..... 2,461,797 Schedule DA, Part 2) .....	2,454,458		2,454,458	2,397,321
6. Other invested assets (Schedule BA) .....				
7. Receivable for securities .....				
8. Aggregate write-ins for invested assets .....				
9. Subtotals, cash and invested assets (Line 1 to Line 8) .....	67,481,437		67,481,437	52,425,291
10. Agents' balances or uncollected premiums:				
10.1 Premiums and agents' balances in course of collection .....	708,083		708,083	641,432
10.2 Premiums, agents' balances and installments booked but deferred and not yet due (including \$ ..... 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, Columns 7 and 8) .....				223,997
15. Federal and foreign income tax recoverable and interest thereon (including \$ ..... 1,559,457 net deferred tax asset) .....	2,565,525	1,006,068	1,559,457	843,607
16. Guaranty funds receivable or on deposit .....				
17. Electronic data processing equipment and software .....				
18. Interest, dividends and real estate income due and accrued .....	686,279		686,279	538,212
19. Net adjustments in assets and liabilities due to foreign exchange rates .....				
20. Receivable from parent, subsidiaries and affiliates .....	2,518,362		2,518,362	1,124,998
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 .....				
26. Total assets excluding protected cell assets (Line 9 through Line 25) .....	73,959,686	1,006,068	72,953,618	55,797,537
27. Protected cell assets .....				
28. TOTALS (Line 26 and Line 27) .....	73,959,686	1,006,068	72,953,618	55,797,537
<b>DETAILS OF WRITE-INS</b>				
0801. ....				
0802. ....				
0803. ....				
0898. Summary of remaining write-ins for Line 8 from overflow page .....				
0899. Totals (Line 0801 through Line 0803 plus Line 0898) (Line 8 above) .....				
2501. ....				
2502. ....				
2503. ....				
2598. Summary of remaining write-ins for Line 25 from overflow page .....				
2599. Totals (Line 2501 through Line 2503 plus Line 2598) (Line 25 above) .....				

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8) .....	19,457,810	14,838,526
2. Reinsurance payable on paid loss and loss adjustment expenses (Schedule F, Part 1, Columnn 6) .....		
3. Loss adjustment expenses (Part 2A, Line 34, Column 9) .....	4,793,363	3,680,728
4. Commissions payable, contingent commissions and other similar charges .....	62,226	77,163
5. Other expenses (excluding taxes, licenses and fees) .....		
6. Taxes, licenses and fees (excluding federal and foreign income taxes) .....		
7. Federal and foreign income taxes (including \$ ..... (5,206) on realized capital gains (losses) (including \$ ..... net deferred tax liability) .....	231,098	174,474
8. Borrowed money \$ ..... and interest thereon \$ .....		
9. Unearned premiums (Part 1A, Line 37, Column 5) (after deducting unearned premiums for ceded reinsurance of \$ ..... 4,188,449 and including warranty reserves of \$ ..... ) .....	18,649,378	8,601,087
10. Advance premiums .....		
11. Dividends declared and unpaid:		
11.1 Stockholders .....		
11.2 Policyholders .....		
12. Ceded reinsurance premiums payable (net of ceding commissions) .....	420,304	288,217
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19) .....	9,813,422	9,822,927
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) .....		44,800
17. Net adjustments in assets and liabilities due to foreign exchange rates .....		
18. Drafts outstanding .....		
19. Payable to parent, subsidiaries and affiliates .....	45,225	
20. Payable for securities .....		
21. Liability for amounts held under uninsured accident and health plans .....		
22. Capital notes \$ ..... and interest thereon \$ .....		
23. Aggregate write-ins for liabilities .....	6,153	476
24. Total liabilities excluding protected cell liabilities (Line 1 through Line 23) .....	53,478,979	37,528,398
25. Protected cell liabilities .....		
26. Total liabilities (Line 24 and Line 25) .....	53,478,979	37,528,398
27. Aggregate write-ins for special surplus funds .....		
28. Common capital stock .....	2,500,000	2,500,000
29. Preferred capital stock .....		
30. Aggregate write-ins for other than special surplus funds .....		
31. Surplus notes .....		
32. Gross paid in and contributed surplus .....	8,002,700	8,002,700
33. Unassigned funds (surplus) .....	8,971,939	7,766,439
34. Less treasury stock, at cost:		
34.1 ..... shares common (value included in Line 28 \$ ..... ) .....		
34.2 ..... shares preferred (value included in Line 29 \$ ..... ) .....		
35. Surplus as regards policyholders (Line 27 to Line 33, less Line 34) (Page 4, Line 38) .....	19,474,639	18,269,139
36. TOTALS (Page 2, Line 28, Column 3) .....	72,953,618	55,797,537
<b>DETAILS OF WRITE-INS</b>		
2301. Escheat Balances .....	6,153	476
2302. ....		
2303. ....		
2398. Summary of remaining write-ins for Line 23 from overflow page .....		
2399. TOTALS (Line 2301 through Line 2303 plus Line 2398) (Line 23 above) .....	6,153	476
2701. ....		
2702. ....		
2703. ....		
2798. Summary of remaining write-ins for Line 27 from overflow page .....		
2799. TOTALS (Line 2701 through Line 2703 plus Line 2798) (Line 27 above) .....		
3001. ....		
3002. ....		
3003. ....		
3098. Summary of remaining write-ins for Line 30 from overflow page .....		
3099. TOTALS (Line 3001 through Line 3003 plus Line 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)	22,843,566	14,935,262
DEDUCTIONS		
2. Losses incurred (Part 2, Line 34, Column 7)	10,714,072	6,672,928
3. Loss expenses incurred (Part 3, Line 25, Column 1)	3,780,046	2,695,663
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	9,413,446	5,569,990
5. Aggregate write-ins for underwriting deductions		
6. Total underwriting deductions (Line 2 through Line 5)	23,907,564	14,938,581
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	(1,063,998)	(3,319)
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	2,855,982	2,684,312
10. Net realized capital gains (losses) (Exhibit of Capital Gains (Losses))	(10,845)	1,294,263
11. Net investment gain (loss) (Line 9 plus Line 10)	2,845,137	3,978,575
OTHER INCOME		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ ..... amount charged off \$ .....)		
13. Finance and service charges not included in premiums		
14. Aggregate write-ins for miscellaneous income	4,638	249
15. Total other income (Line 12 through Line 14)	4,638	249
16. Net income before dividends to policyholders and before federal and foreign income taxes (Line 8 plus Line 11 plus Line 15)	1,785,777	3,975,505
17. Dividends to policyholders		
18. Net income, after dividends to policyholders but before federal and foreign income taxes (Line 16 minus Line 17)	1,785,777	3,975,505
19. Federal and foreign income taxes incurred	1,522,192	1,563,004
20. Net income (Line 18 minus Line 19) (to Line 22)	263,585	2,412,501
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 38, Column 2)	18,269,139	16,827,834
GAINS AND (LOSSES) IN SURPLUS		
22. Net income (from Line 20)	263,585	2,412,501
23. Net unrealized capital gains or (losses)	68,227	(371,694)
24. Change in net unrealized foreign exchange capital gain (loss)		
25. Change in net deferred income tax	1,758,657	324,180
26. Change in nonadmitted assets (Exhibit 1, Line 5, Column 3)	(929,769)	(30,309)
27. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	44,800	53,200
28. Change in surplus notes		
29. Surplus (contributed to) withdrawn from protected cells		
30. Cumulative effect of changes in accounting principles		853,427
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		(1,800,000)
35. Change in treasury stock (Page 3, Line 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 (Line 22 through Line 36)	1,205,500	1,441,305
38. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 37) (Page 3, Line 35)	19,474,639	18,269,139
DETAILS OF WRITE-INS		
0501		
0502		
0503		
0598. Summary of remaining write-ins for Line 5 from overflow page		
0599. Totals (Line 0501 through Line 0503 plus Line 0598) (Line 5 above)		
1401. Miscellaneous income	4,638	249
1402		
1403		
1498. Summary of remaining write-ins for Line 14 from overflow page		
1499. Totals (Line 1401 through Line 1403 plus Line 1498) (Line 14 above)	4,638	249
3601		
3602		
3603		
3698. Summary of remaining write-ins for Line 36 from overflow page		
3699. Totals (Line 3601 through Line 3603 plus Line 3698) (Line 36 above)		

**CASH FLOW**

	1 Current Year	2 Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance .....	32,994,547	16,865,895
2. Loss and loss adjustment expenses paid (net of salvage and subrogation) .....	8,538,203	7,009,239
3. Underwriting expenses paid .....	9,428,383	5,524,370
4. Other underwriting income (expenses) .....		
5. Cash from underwriting (Line 1 minus Line 2 minus Line 3 plus Line 4) .....	15,027,961	4,332,286
6. Net investment income .....	2,818,446	2,667,749
7. Other income (expenses):		
7.1 Agents' balances charged off .....		
7.2 Net funds held under reinsurance treaties .....	(9,505)	3,200,275
7.3 Net amount withheld or retained for account of others .....		
7.4 Aggregate write-ins for miscellaneous items .....	4,638	249
7.5 Total other income (Line 7.1 to Line 7.4) .....	(4,867)	3,200,524
8. Dividends to policyholders on direct business, less \$ .....		
dividends on reinsurance assumed or ceded (net) .....		
9. Federal and foreign income taxes (paid) recovered .....	(1,465,568)	(1,403,959)
10. Net cash from operations (Line 5 plus Line 6 plus Line 7.5 minus Line 8 plus Line 9) .....	16,375,972	8,796,600
Cash from Investments		
11. Proceeds from investments sold, matured or repaid:		
11.1 Bonds .....	6,214,007	34,462,963
11.2 Stocks .....		1,450,636
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 .....		
11.8 Total investment proceeds (Line 11.1 to Line 11.7) .....	6,214,007	35,913,599
12. Cost of investments acquired (long-term only):		
12.1 Bonds .....	21,229,425	45,239,469
12.2 Stocks .....		600,000
12.3 Mortgage loans .....		
12.4 Real estate .....		
12.5 Other invested assets .....		
12.6 Miscellaneous applications .....		
12.7 Total investments acquired (Line 12.1 to Line 12.6) .....	21,229,425	45,839,469
13. Net cash from investments (Line 11.8 minus Line 12.7) .....	(15,015,418)	(9,925,870)
Cash from Financing and Miscellaneous Sources		
14. Cash provided:		
14.1 Surplus notes, capital and surplus paid in .....		
14.2 Capital notes, \$ .....		
less amounts repaid \$ .....		
14.3 Net transfers from affiliates .....		2,008,558
14.4 Borrowed funds received .....		
14.5 Other cash provided .....	44,722	6,944
14.6 Total (Lines 14.1 to 14.5) .....	44,722	2,015,502
15. Cash applied:		
15.1 Dividends to stockholders paid .....		1,800,000
15.2 Net transfers to affiliates .....	1,348,140	
15.3 Borrowed funds repaid .....		
15.4 Other applications .....		
15.5 Total (Line 15.1 to Line 15.4) .....	1,348,140	1,800,000
16. Net cash from financing and miscellaneous sources (Line 14.6 minus Line 15.5) .....	(1,303,418)	215,502
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
17. Net change in cash and short-term investments (Line 10 plus Line 13 plus Line 16) .....	57,136	(913,768)
18. Cash and short-term investments:		
18.1 Beginning of year .....	2,397,322	3,311,089
18.2 End of year (Line 17 plus Line 18.1) .....	2,454,458	2,397,321
DETAILS OF WRITE-INS		
7.401 Miscellaneous income .....	4,638	249
7.402 .....		
7.403 .....		
7.498 Summary of remaining write-ins for Line 7.4 from overflow page .....		
7.499 Totals (Line 7.401 through Line 7.403 plus Line 7.498) (Line 7.4 above) .....	4,638	249

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 1 - PREMIUMS EARNED**

Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums December 31 Prior Year- per Column 3, Last Year's Part 2	3 Unearned Premiums December 31 Current Year- per Column 5 Part 1A	4 Premiums Earned During Year (Column 1 plus 2 minus 3)
1. Fire .....	141,206	43,962	112,023	73,145
2. Allied lines .....	2,229,013	448,593	1,709,396	968,210
3. Farmowners multiple peril .....				
4. Homeowners multiple peril .....				
5. Commercial multiple peril .....	5,996,063	2,062,629	3,454,852	4,603,840
6. Mortgage guaranty .....				
8. Ocean marine .....				
9. Inland marine .....	337,269	194,267	227,535	304,001
10. Financial guaranty .....				
11.1 Medical malpractice - occurrence .....	2,145	542	1,235	1,452
11.2 Medical malpractice - claims-made .....	301,475	648	99,265	202,858
12. Earthquake .....	(39)	27		(12)
13. Group accident and health .....				
14. Credit accident and health (group and individual) .....				
15. Other accident and health .....				
16. Workers' compensation .....				
17.1 Other liability - occurrence .....	11,455,714	2,482,866	5,893,358	8,045,222
17.2 Other liability - claims-made .....	7,744,807	2,029,333	4,280,975	5,493,165
18.1 Products liability - occurrence .....	3,107,412	940,175	1,831,540	2,216,047
18.2 Products liability - claims-made .....	113,690	41,560	73,147	82,103
19.1, 19.2 Private passenger auto liability .....				
19.3, 19.4 Commercial auto liability .....	1,022,278	257,118	660,796	618,600
21. Auto physical damage .....	441,304	95,111	303,927	232,488
22. Aircraft (all perils) .....				
23. Fidelity .....		62	2	60
24. Surety .....	(479)	4,188	1,327	2,382
26. Burglary and theft .....		5		5
27. Boiler and machinery .....				
28. Credit .....				
29. International .....				
30. Reinsurance - Nonproportional Assumed Property .....				
31. Reinsurance - Nonproportional Assumed Liability .....				
32. Reinsurance - Nonproportional Assumed Financial Lines .....				
33. Aggregate write-ins for other lines of business .....				
34. TOTALS .....	32,891,858	8,601,086	18,649,378	22,843,566
<b>DETAILS OF WRITE-INS</b>				
3301. ....				
3302. ....				
3303. ....				
3398. Summary of remaining write-ins for Line 33 from overflow page .....				
3399. Totals (Line 3301 through Line 3303 plus Line 3398) (Line 33 above) .....				

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 1A-RECAPITULATION OF ALL PREMIUMS**

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

Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (b)	2 Amount Unearned (Running More Than One Year from Date of Policy) (b)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Columns 1 + 2 + 3 + 4
1. Fire	112,023				112,023
2. Allied lines	1,709,396				1,709,396
3. Farmowners multiple peril					
4. Homeowners multiple peril					
5. Commercial multiple peril	3,454,852				3,454,852
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	227,535				227,535
10. Financial guaranty					
11.1 Medical malpractice - occurrence	1,235				1,235
11.2 Medical malpractice - claims-made	99,265				99,265
12. Earthquake					
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation					
17.1 Other liability - occurrence	5,893,358				5,893,358
17.2 Other liability - claims-made	4,280,975				4,280,975
18.1 Products liability - occurrence	1,831,540				1,831,540
18.2 Products liability - claims-made	73,147				73,147
19.1, 19.2 Private passenger auto liability					
19.3, 19.4 Commercial auto liability	660,796				660,796
21. Auto physical damage	303,927				303,927
22. Aircraft (all perils)					
23. Fidelity	2				2
24. Surety	1,327				1,327
26. Burglary and theft					
27. Boiler and machinery					
28. Credit					
29. International					
30. Reinsurance - Nonproportional Assumed Property					
31. Reinsurance - Nonproportional Assumed Liability					
32. Reinsurance - Nonproportional Assumed Financial Lines					
33. Aggregate write-ins for other lines of business					
34. TOTALS	18,649,378				18,649,378
35. Accrued retrospective premiums based on experience					
36. Earned but unbilled premiums					
37. Balance (Sum of Line 34 through Line 36)					18,649,378
DETAILS OF WRITE-INS					
3301.					
3302.					
3303.					
3398. Summary of remaining write-ins for Line 33 from overflow page					
3399. Totals (Lines 3301 through 3303 plus 3398) (Line 33 above)					

(a) By gross premiums is meant the aggregate of all the premiums written in the policies or renewals in force.

Are they so returned in this statement? Yes (X) No ( )

(b) State here basis of computation used in each case.  
Daily Pro Rata

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 1B-PREMIUMS WRITTEN**

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

Line of Business	1 Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written Columns 1 + 2 + 3 - 4 - 5
		2 From Affiliates	3 From Non-Affiliates	4 To Affiliates	5 To Non-Affiliates	
1. Fire	113,354	136,105		28,899	79,354	141,206
2. Allied lines	200,132	2,208,454		116,496	63,077	2,229,013
3. Farmowners multiple peril						
4. Homeowners multiple peril						
5. Commercial multiple peril	890,581	5,893,522		581,065	206,975	5,996,063
6. Mortgage guaranty						
8. Ocean marine						
9. Inland marine	97,134	326,090		63,343	22,612	337,269
10. Financial guaranty						
11.1 Medical malpractice - occurrence		2,145				2,145
11.2 Medical malpractice - claims-made	369,078	254,418		266,659	55,362	301,475
12. Earthquake		(39)				(39)
13. Group accident and health						
14. Credit accident and health (group and individual)						
15. Other accident and health						
16. Workers' compensation	3,560,201			3,560,201		
17.1 Other liability - occurrence	2,248,630	11,143,859		1,767,167	169,608	11,455,714
17.2 Other liability - claims-made	2,663,760	7,399,909		1,954,422	364,440	7,744,807
18.1 Products liability - occurrence	340,573	3,061,595		259,630	35,126	3,107,412
18.2 Products liability - claims-made	17,300	111,465		12,607	2,468	113,690
19.1, 19.2 Private passenger auto liability						
19.3, 19.4 Commercial auto liability	124,533	1,026,512		(24,000)	152,767	1,022,278
21. Auto physical damage	91,389	430,240		62,694	17,631	441,304
22. Aircraft (all perils)						
23. Fidelity						
24. Surety		(479)				(479)
26. Burglary and theft						
27. Boiler and machinery						
28. Credit						
29. International						
30. Reinsurance - Nonproportional Assumed Property	XXX					
31. Reinsurance - Nonproportional Assumed Liability	XXX					
32. Reinsurance - Nonproportional Assumed Financial Lines	XXX					
33. Aggregate write-ins for other lines of business						
34. TOTALS	10,716,665	31,993,796		8,649,183	1,169,420	32,891,858
DETAILS OF WRITE-INS						
3301.						
3302.						
3303.						
3398. Summary of remaining write-ins for Line 33 from overflow page						
3399. Totals (Line 3301 through Line 3303 plus Line 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 \$ .....  
2. Amount at which such installment premiums would have been reported had they been recorded on an annualized basis \$ .....

ANNUAL STATEMENT FOR THE YEAR 2002 OF THE COLONY SPECIALTY INSURANCE COMPANY

**UNDERWRITING AND INVESTMENT EXHIBIT**

PART 2 - LOSSES PAID AND INCURRED

Line of Business	Losses Paid Less Salvage				5	6	7	8
	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Columns 1 plus 2 minus 3)	Net Losses Unpaid Current Year (Part 2A Column 8)	Net Losses Unpaid Prior Year	Losses Incurred Current Year (Column 4 plus 5 minus 6)	Percentage of Losses Incurred (Column 7, Part 2) to Premiums Earned (Column 4, Part 1)
1. Fire	147,877	7,225	125,695	29,407	62,926	73,171	19,162	26.2
2. Allied lines	1,679	230,525	1,427	230,777	369,235	239,666	360,346	37.2
3. Farmowners multiple peril								
4. Homeowners multiple peril								
5. Commercial multiple peril	200,259	2,202,339	153,285	2,249,313	4,251,381	3,538,870	2,961,824	64.3
6. Mortgage guaranty								
8. Ocean marine								
9. Inland marine	7,009	122,166	5,958	123,217	148,001	106,419	164,799	54.2
10. Financial guaranty								
11.1 Medical malpractice - occurrence		22,575		22,575	40,559	67,412	(4,278)	(294.6)
11.2 Medical malpractice - claims-made					89,034	35,612	53,422	26.3
12. Earthquake		123,089		123,089		122,304	785	(6,541.7)
13. Group accident and health								
14. Credit accident and health (group and individual)								
15. Other accident and health								
16. Workers' compensation	4,489,770		4,489,770					
17.1 Other liability - occurrence	701,972	1,851,611	462,956	2,090,627	7,895,968	6,164,751	3,821,844	47.5
17.2 Other liability - claims-made	415,873	358,126	458,256	315,743	3,289,829	2,028,503	1,577,069	28.7
18.1 Products liability - occurrence	78,315	427,961	19,660	486,616	2,306,520	1,442,416	1,350,720	61.0
18.2 Products liability - claims-made		(13,718)		(13,718)	152,392	159,213	(20,539)	(25.0)
19.1, 19.2 Private passenger auto liability					4,800	4,800		
19.3, 19.4 Commercial auto liability	1,224,223	95,690	1,040,590	279,323	590,453	466,506	403,270	65.2
21. Auto physical damage	596,978	38,012	507,431	127,559	87,227	114,800	99,986	43.0
22. Aircraft (all perils)								
23. Fidelity					5,688	11,735	(6,047)	(10,078.3)
24. Surety		29,046		29,046	162,901	262,019	(70,072)	(2,941.7)
26. Burglary and theft	8,116		6,899	1,217	900	331	1,786	35,720.0
27. Boiler and machinery								
28. Credit								
29. International								
30. Reinsurance- Nonproportional Assumed Property	XXX							
31. Reinsurance- Nonproportional Assumed Liability	XXX							
32. Reinsurance- Nonproportional Assumed Financial Lines	XXX							
33. Aggregate write-ins for other lines of business								
34. TOTALS	7,872,071	5,494,647	7,271,927	6,094,791	19,457,814	14,838,528	10,714,077	46.9
DETAILS OF WRITE-INS								
3301								
3302								
3303								
3398. Summary of remaining write-ins for Line 33 from overflow page								
3399. Totals (Line 3301 through Line 3303 plus Line 3398) (Line 33 above)								

ANNUAL STATEMENT FOR THE YEAR 2002 OF THE COLONY SPECIALTY INSURANCE COMPANY

**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 (Columns 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 Excluding Incurred But Not Reported (Columns 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded		
1. Fire	58,054	22,532	49,346	31,240	43,293	25,192	36,799	62,926	12,134
2. Allied lines	3,000	169,128	2,550	169,578	50,112	192,140	42,595	369,235	75,902
3. Farmowners multiple peril									
4. Homeowners multiple peril									
5. Commercial multiple peril	198,500	1,939,191	176,750	1,960,941	675,457	2,166,845	551,862	4,251,381	1,004,372
6. Mortgage guaranty									
8. Ocean marine									
9. Inland marine		81,885		81,885	82,207	53,785	69,876	148,001	21,412
10. Financial guaranty									
11.1 Medical malpractice - occurrence		18,525		18,525		22,034		40,559	11,257
11.2 Medical malpractice - claims-made		11,250		11,250	130,411	58,223	110,850	89,034	18,168
12. Earthquake									3,591
13. Group accident and health								(a)	
14. Credit accident and health (group and individual)								(a)	
15. Other accident and health									
16. Workers' compensation	3,716,975		3,716,975		1,559,061		1,559,061		
17.1 Other liability - occurrence	751,501	3,045,960	412,664	3,384,797	2,380,005	3,863,278	1,732,112	7,895,968	1,901,645
17.2 Other liability - claims-made	165,750	661,224	143,905	683,069	1,408,079	2,565,070	1,366,389	3,289,829	877,472
18.1 Products liability - occurrence	444,501	472,149	404,350	512,300	339,567	1,750,748	296,095	2,306,520	638,609
18.2 Products liability - claims-made		15,750		15,750	33,368	120,759	17,485	152,392	40,144
19.1, 19.2 Private passenger auto liability		4,800		4,800				4,800	271
19.3, 19.4 Commercial auto liability	1,074,458	182,551	913,289	343,720	546,432	164,768	464,467	590,453	121,916
21. Auto physical damage	75,473	26,935	64,152	38,256	96,525	34,492	82,046	87,227	16,585
22. Aircraft (all perils)									
23. Fidelity						5,688		5,688	1,827
24. Surety		67,100		67,100		95,801		162,901	48,011
26. Burglary and theft					6,000		5,100	900	49
27. Boiler and machinery									
28. Credit									
29. International									
30. Reinsurance- Nonproportional Assumed Property	X X X				X X X				
31. Reinsurance- Nonproportional Assumed Liability	X X X				X X X				
32. Reinsurance- Nonproportional Assumed Financial Lines	X X X				X X X				
33. Aggregate write-ins for other lines of business									
34. TOTALS	6,488,212	6,718,980	5,883,981	7,323,211	7,350,517	11,118,823	6,334,737	19,457,814	4,793,365
DETAILS OF WRITE-INS									
3301.									
3302.									
3303.									
3398. Summary of remaining write-ins for Line 33 from overflow page									
3399. Totals (Line 3301 through Line 3303 plus Line 3398) (Line 33 above)									

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

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 3 - EXPENSES**

	1	2	3	4
	Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1. Claim adjustment services:				
1.1 Direct	656,101			656,101
1.2 Reinsurance assumed	2,941,174			2,941,174
1.3 Reinsurance ceded	529,701			529,701
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	3,067,574			3,067,574
2. Commission and brokerage:				
2.1 Direct excluding contingent		1,747,337		1,747,337
2.2 Reinsurance assumed excluding contingent		6,797,518		6,797,518
2.3 Reinsurance ceded excluding contingent		1,553,454		1,553,454
2.4 Contingent - direct		(14,936)		(14,936)
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)		6,976,465		6,976,465
3. Allowances to manager and agents		77,708		77,708
4. Advertising		15,917		15,917
5. Boards, bureaus and associations		35,096		35,096
6. Surveys and underwriting reports		(30,838)		(30,838)
7. Audit of assureds' records		17,821		17,821
8. Salary and related items:				
8.1 Salaries	471,647	1,254,387	31,764	1,757,798
8.2 Payroll taxes	31,226	83,880	1,967	117,073
9. Employee relations and welfare	62,898	171,526	4,103	238,527
10. Insurance	14,611	40,974	898	56,483
11. Directors' fees				
12. Travel and travel items	14,249	69,757	973	84,979
13. Rent and rent items	37,155	113,090	2,169	152,414
14. Equipment	9,918	39,637	1,653	51,208
15. Cost or Depreciation of EDP equipment and software	15,914	69,648	748	86,310
16. Printing and stationery	13,643	40,317	1,710	55,670
17. Postage, telephone and telegraph, exchange and express	16,866	59,487	1,018	77,371
18. Legal and auditing	14,863	37,167	137,384	189,414
19. Totals (Lines 3 to 18)	702,990	2,095,574	184,387	2,982,951
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$		44,861		44,861
20.2 Insurance department licenses and fees		34,198		34,198
20.3 Gross guaranty association assessments		(2,901)		(2,901)
20.4 All other (excluding federal and foreign income and real estate)		51,777		51,777
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		127,935		127,935
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured accident and health plans				
24. Aggregate write-ins for miscellaneous expenses	9,482	213,470	57,665	280,617
25. Total expenses incurred	3,780,046	9,413,444	242,052	(a) 13,435,542
26. Less unpaid expenses - current year	4,793,364	62,226		4,855,590
27. Add unpaid expenses - prior year	3,680,728	77,162		3,757,890
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)	2,667,410	9,428,380	242,052	12,337,842
<b>DETAILS OF WRITE-INS</b>				
2401. EDP and other consulting services	4,718	13,675	209	18,602
2402. Shared service fees	4,573	194,964	57,364	256,901
2403. Miscellaneous	191	4,831	92	5,114
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Line 2401 through Line 2403 plus Line 2498) (Line 24 above)	9,482	213,470	57,665	280,617

(a) Includes management fees of \$ 3,140,633 to affiliates and \$ to non-affiliates.

**EXHIBIT OF NET INVESTMENT INCOME**

	1	2
	Collected During Year	Earned During Year
1. U. S. Government bonds	(a) 914,366	934,357
1.1 Bonds exempt from U. S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a) 1,815,460	1,949,162
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b) 37,356	37,356
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)		118,872
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash/short-term investments	(e) 63,912	58,286
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income		
10. Total gross investment income	2,949,966	3,098,033
11. Investment expenses		(g) 242,052
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. Totals deductions (Line 11 through Line 15)		242,052
17. Net investment income (Line 10 minus Line 16)		2,855,981
<b>DETAILS OF WRITE-INS</b>		
0901.		
0902.		
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page		
0999. Totals (Lines 0901 through 0903 plus Line 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 Line 1598 ) (Line 15 above)		
(a) Includes \$ 85,250 accrual of discount less \$ 195,783 amortization of premium and less \$ 173,211 paid for accrued interest on purchases.	(f) Includes \$ accrual of discount less \$ amortization of premium.	
(b) Includes \$ accrual of discount less \$ paid for accrued dividends on purchases.	(g) Includes \$ investment expenses and \$ investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.	
(c) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued interest on purchases.	(h) Includes \$ interest on surplus notes and \$ interest on capital notes.	
(d) Includes \$ for company's occupancy of its own buildings; and excludes \$ interest on encumbrances.	(i) Includes \$ depreciation on real estate and \$ depreciation on other invested assets.	
(e) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued interest on purchases.		

**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					
1.1 Bonds exempt from U. S. tax					
1.2 Other bonds (unaffiliated)	(10,845)				(10,845)
1.3 Bonds of affiliates					
2.1 Preferred stocks (unaffiliated)					
2.11 Preferred stocks of affiliates					
2.2 Common stocks (unaffiliated)			104,967		104,967
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)			(36,739)		(36,739)
10. Total capital gains (losses)	(10,845)		68,228		57,383
<b>DETAILS OF WRITE-INS</b>					
0901. Change to deferred tax on unrealized gain			(36,739)		(36,739)
0902.					
0903.					
0998. Summary of remaining write-ins for Line 9 from overflow page					
0999. Totals (Lines 0901 through 0903 plus Line 0998 ) (Line 9 above)			(36,739)		(36,739)

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

	1 End of Current Year	2 End of Prior Year	3 Changes for Year (Increase) Decrease
1. Summary of Items Page 2, Line 10 to Line 17 and Line 19 to Line 23, Column 2 .....	1,006,068	37,254	(968,814)
2. Other Nonadmitted Assets:			
2.1 Bills receivable .....			
2.2 Furniture, equipment and supplies .....			
2.3 Leasehold improvements .....			
2.4 Loans on personal security, endorsed or not .....			
3. Total (Line 2.1 to Line 2.4) .....			
4. Aggregate write-ins for other assets .....		39,045	39,045
5. Total (Line 1 plus Line 3 and Line 4) .....	1,006,068	76,299	(929,769)
<b>DETAILS OF WRITE-INS</b>			
0401. Miscellaneous .....		39,045	39,045
0402. ....			
0403. ....			
0498. Summary of remaining write-ins for Line 4 from overflow page .....			
0499. Totals (Line 0401 through Line 0403 plus Line 0498) (Line 4 above) .....		39,045	39,045

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Accounting Practices

The accompanying financial statements of the Colony Specialty Insurance Company have been prepared on the basis of accounting practices prescribed or permitted by the state of Ohio. The NAIC's Accounting Practices and Procedures Manual, which was significantly revised effective January 1, 2001, has been adopted as a component of prescribed or permitted practices by the state of Ohio. The accompanying financial statements contain no differences as a result of practices prescribed or permitted by Ohio that differ from the NAIC's Accounting Practices and Procedures Manual.

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

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the period. Actual results could differ from those estimates.

#### C. Accounting Policy

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

In addition, the Company uses the following accounting policies:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the interest method.
- (3) Common stocks are stated at market.
- (4) Bonds backed by loans or structured securities are stated at amortized cost using the interest method. Prepayment assumptions were obtained from the outside investment manager. The prospective adjustment method was used.
- (5) The Company does consider investment income as a factor in premium deficiency calculations.
- (6) Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

### 2. ACCOUNTING CHANGES AND CORRECTIONS OF ERRORS

#### A. Accounting Changes Other than Codification and Correction of Errors

None

#### B. Accounting Changes as a Result of Codification

The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the state of Ohio. Effective January 1, 2001 the state of Ohio required insurance companies domiciled in Ohio to prepare their statutory financial statements in accordance with the NAIC Accounting Practices and Procedures Manual, which was significantly revised effective January 1, 2001.

Accounting changes adopted to conform with the provisions of the NAIC Accounting Practices and Procedures Manual are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all periods. As a result of these changes, the Company reported a cumulative effect of changes in accounting principles that increased unassigned funds by \$853,427 as of January 1, 2001. Included in this adjustment is an increase in unassigned funds of \$519,427 for the recording of net deferred tax assets and an increase of \$334,000 for the elimination of "excess statutory reserves over statement reserves" (Schedule P penalty).

### 3. BUSINESS COMBINATIONS AND GOODWILL

Not applicable

### 4. DISCONTINUED OPERATIONS

Not applicable

### 5. INVESTMENTS

#### A. Loan-backed Securities

- (1) The Company uses the prospective method to amortize cost.
- (2) Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities were obtained from outside investment managers.
- (3) The Company uses NAIC(SVO) pricing service to determine the market value for those securities listed. Unlisted securities are stated at amortized cost.
- (4) Not applicable.

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

Not applicable

### 7. INVESTMENT INCOME

#### A. Accrued Investment Income

The Company has no investment income due and accrued exceeding 90 days past due.

### 8. DERIVATIVE INSTRUMENTS

Not applicable

### 9. INCOME TAXES

#### A. The components of net deferred tax assets at December 31, 2002 and 2001 are as follows:

## NOTES TO FINANCIAL STATEMENTS

	2002	2001		
Gross deferred tax assets	\$2,642,303	\$883,646		
Gross deferred tax liabilities	<u>(76,778)</u>	<u>(40,039)</u>		
Net deferred tax asset	2,565,525	843,607		
Nonadmitted deferred tax assets	<u>(1,006,068)</u>	<u>0</u>		
Admitted deferred tax asset	<u>1,559,457</u>	<u>\$843,607</u>		
Increase in nonadmitted deferred tax assets	<u>(1,006,068)</u>	<u>\$ 0</u>		
B. Deferred tax liabilities not recognized:				
None				
C. Current income taxes incurred consist of the following major components:				
	2002	2001		
Current year income tax expense	\$1,637,097	\$1,612,588		
Prior year (overaccrual)/underaccrual of tax reserves	<u>(114,906)</u>	<u>(49,584)</u>		
Current income taxes incurred	<u>\$1,522,191</u>	<u>\$1,563,004</u>		
The main components of the 2002 deferred tax amounts are as follows:				
	Statutory	Tax	Difference	Tax Effect
Deferred tax assets:				
Unpaid losses and loss adjustment expenses	\$24,251,173	\$20,431,612	\$3,819,561	\$ 1,336,847
Unearned premiums	18,649,378	14,919,502	3,279,876	<u>1,305,456</u>
Gross deferred tax assets				<u>\$ 2,642,303</u>
Nonadmitted deferred tax assets				<u>\$(1,006,068)</u>
Deferred tax liabilities:				
Unrealized gains on stocks	\$ 219,365	\$ 0	\$ 219,365	<u>\$ 76,778</u>
				<u>\$ 76,778</u>
Deferred tax assets resulting from book/tax differences in:	December 31, 2002	December 31, 2001	Change	
Unpaid losses and loss adjustment expenses	\$ 1,336,847	\$281,570	\$ 1,055,277	
Unearned premiums	<u>1,305,456</u>	<u>602,076</u>	<u>703,380</u>	
Gross deferred tax assets	<u>\$ 2,642,303</u>	<u>\$883,646</u>	<u>\$ 1,758,657</u>	
Nonadmitted deferred tax assets	<u>\$(1,006,068)</u>	<u>\$ 0</u>	<u>\$(1,006,068)</u>	
Deferred tax liabilities resulting from book/tax differences in:	December 31, 2002	December 31, 2001	Change	
Unrealized capital gains	<u>\$ 76,778</u>	<u>\$ 40,039</u>	<u>\$ 36,739</u>	
Gross deferred tax liabilities	<u>\$ 76,778</u>	<u>\$ 40,039</u>	<u>\$ 36,739</u>	
The change in net deferred taxes is comprised of the following:	December 31, 2002	December 31, 2001	Change	
Total gross deferred assets	\$2,642,303	\$ 883,646	\$1,835,435	
Total gross deferred liabilities	<u>(76,778)</u>	<u>(40,039)</u>	<u>(36,739)</u>	
Net deferred tax asset	<u>\$2,565,525</u>	<u>\$ 843,607</u>	<u>\$1,721,918</u>	
Deferred tax on change in unrealized gains			<u>36,739</u>	
Change in net deferred income tax			<u>\$1,758,657</u>	
D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate				
The significant book to tax adjustments were as follows:	Amount	Tax effect at 35%		
Income before taxes	\$1,785,774	\$ 625,021		
Dividends received deduction	(26,149)	(9,152)		
Book over tax loss and loss adjustment reserves	940,543	329,190		
Book over tax unearned premium reserve	2,009,658	703,380		
Tax over book accrued expense reserve	<u>(32,406)</u>	<u>(11,342)</u>		
	<u>\$4,677,420</u>	<u>\$1,637,097</u>		
E. Operating Loss and Tax Credit Carryforwards				
(1) At December 31, 2002 the Company did not have any unused operating loss carryforwards to offset against future taxable income.				
(2) The following is income tax expense for 2002 and 2001 that is available for recoupment in the event of future net losses:				
	Year	Amount		
	2002	\$1,637,097		
	2001	\$1,497,682		
F. Consolidated Federal Income Tax Return				
(1) The Company joins in the filing of a consolidated federal income tax return with Argonaut Group, Inc. and its subsidiaries. A listing of each entity that is included in the return is found in Schedule Y.				
(2) A written agreement provides that federal income taxes will be allocated to the Company on approximately the same basis as though the Company were filing a separate return. Estimated tax payments are settled with the Company's parent at the time such estimates are payable to the Internal Revenue Service. Final settlement between the Company and its parent is made within thirty days of the filing of the tax return.				

## 10. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES

## A. Nature of Relationships

On August 23, 2001, the Company's ultimate parent Front Royal, Inc. and its subsidiaries, were acquired by Argonaut Insurance Company (Argonaut) for \$165 million in cash. Argonaut is primarily engaged in writing workers' compensation insurance and other

## NOTES TO FINANCIAL STATEMENTS

property and casualty lines of business.

The Company is wholly owned by Colony Insurance Company which is a wholly owned subsidiary of Front Royal, Inc. Front Royal, Inc. is wholly owned by Argonaut Insurance Company. Argonaut Insurance Company is wholly owned by Argonaut Group, Inc., the ultimate parent of the Company.

### B. Detail of Transactions Greater than 1/2% of Admitted Assets

The Company participates in a reinsurance pooling arrangement, Pool E, with Colony Insurance Company (Colony) and Colony National Insurance Company (Colony National). Details of this arrangement are discussed more fully in Note 25.

The Company participates in a 100% quota share reinsurance arrangement with its affiliate Rockwood Casualty Insurance Company (Rockwood). Under the agreement, the Company cedes to Rockwood 100% of Workers' Compensation business written by the Company and managed by Rockwood.

Under a service agreement between Colony and the Company, Colony serves as the paying agent for claims. Claims paid by Colony on behalf of the Company are reimbursed in the immediately succeeding month.

Colony Management Services, Inc. (CMS), also a wholly owned subsidiary of Front Royal, Inc. and another affiliate, Fulcrum Underwriting Managers, Inc., provides accounting, administrative, underwriting and claims services, under contract with the Company. Fees are allocated to the Company on a basis approximating the cost of providing such services and totaled \$3,140,633 and \$2,573,709 for the years ended December 31, 2002 and 2001, respectively.

In 2001 the Company paid a dividend to Colony in the amount of \$1,800,000.

### C. Change in Terms of Intercompany Arrangements

None

### D. Amounts Due to or from Related Parties

At December 31, 2002 the Company reported \$1,801,155 receivable from Colony under Pool E and net of amounts payable for claims paid by Colony on behalf of the Company. The Company also reported \$82,785 receivable from CMS as a result of overpayments under the management services agreement and \$589,078 receivable from Colony National under Pool E.

At December 31, 2001 the Company reported \$1,036,345 receivable from Colony under Pool E and net of amounts payable for claims paid by Colony on behalf of the Company. The Company also reported \$27,140 receivable from Colony Management Services, Inc. as a result of overpayments under the management services agreement between the Company and CMS, and \$61,513 receivable from Colony National under Pool E.

## 11. DEBT

Not applicable

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

This section is not applicable. The Company has no employees. The cost of these items is charged to the Company as part of the management fee under the service agreement with Colony Management Services, Inc.

## 13. CAPITAL and SURPLUS, SHAREHOLDERS' DIVIDEND RESTRICTIONS and QUASI-REORGANIZATIONS

### A. Outstanding Shares

The Company has 1,000 shares of \$2,500 par value common stock authorized, issued and outstanding. The Company has no preferred stock authorized, issued or outstanding.

### B. Dividend Restrictions

Dividends on common stock are paid as declared by the Board of Directors of the Company. Under the insurance regulations of Ohio, the maximum amount of aggregate dividends which the Company may pay in any twelve month period without the prior approval of the Ohio Department of Insurance is the greater of either (i) ten percent of the insurer's surplus to policyholders as of the immediately preceding December 31 or (ii) net income for the immediately preceding year, limited to the amount of unassigned funds (surplus) as of the immediately preceding December 31. At December 31, 2002 and 2001 the Company has no shareholder dividends declared and unpaid, and the maximum amount of dividends that can be paid in the succeeding twelve months without prior approval is \$1,947,464 and \$2,412,501, respectively.

### C. Changes in Unassigned Funds

The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:

	Cumulative Increase (Decrease) in Surplus
Unrealized gain or loss	\$ 219,365
Nonadmitted assets	(1,006,068)
	\$ (786,703)

## 14. CONTINGENCIES

### A. Guaranty Fund and Other Assessments

The Company is subject to guaranty fund and other assessments by the states in which it is licensed to write business. Guaranty fund assessments should be accrued at the time of insolvencies. Other assessments should be accrued either at the time of assessments or in the case of premium based assessments, at the time the premiums were written, or in the case of loss based assessments, at the time the losses are incurred. At December 31, 2002 based on information available from states in which the Company is licensed to write business, there were no material unpaid assessments and the Company has not accrued a liability for guaranty fund or other assessments.

### B. All Other Contingencies

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

## 15. LEASES

Not applicable

## NOTES TO FINANCIAL STATEMENTS

### 16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND WITH CONCENTRATION of CREDIT RISK

Not applicable

### 17. SALES, TRANSFER and SERVICING of FINANCIAL ASSETS and EXTINGUISHMENT of LIABILITIES

Not applicable

### 18. GAIN or LOSS FROM UNINSURED ACCIDENT and HEALTH PLANS and the UNINSURED PORTION OF PARTIALLY INSURED PLANS

Not applicable

### 19. DIRECT PREMIUMS WRITTEN/PRODUCED by MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATORS

Not applicable

### 20. OTHER ITEMS

#### A. Other Disclosures

Effective April 1, 2002, Front Royal Insurance Company changed its name to Colony Specialty Insurance Company. On that date an affiliate, Preferred National Insurance Company, changed its name to Colony National Insurance Company.

Assets in the amount of \$3,246,146 and \$3,272,098 at December 31, 2002 and 2001, respectively, were on deposit with government authorities or trustees as required by law.

#### B. Uncollectible Premiums Receivable

At December 31, 2002 and 2001, the Company had admitted assets of \$708,083 and \$641,432, respectively, in premiums receivable due from agents. The Company routinely assesses the collectibility of these receivables. Based upon Company experience, any uncollectible premiums receivable as of December 31, 2002 are not expected to exceed the nonadmitted amounts totaling \$0 and, therefore, no additional provision for uncollectible amounts has been recorded. The potential for any additional loss is not believed to be material to the Company's financial condition.

#### C. September 11 Events

No losses were incurred as a result of the terrorist attacks on September 11, 2001.

### 21. EVENTS SUBSEQUENT

None

### 22. REINSURANCE

#### A. Unsecured Reinsurance Recoverables

The Company had, at December 31, 2002, no amounts for unsecured aggregate reinsurance recoverable for losses and loss adjustment expenses, paid and unpaid including IBNR, and unearned premium that exceeded 3% of the Company's policyholders' surplus.

#### B. Reinsurance Recoverables in Dispute

The Company has no reinsurance recoverable in dispute with any one reinsurer exceeding 5% of policyholders' surplus or any reinsurance recoverable in dispute which in the aggregate exceeds 10% of policyholders' surplus.

#### C. Reinsured Assumed and Ceded

(1) The following table summarizes ceded and assumed unearned premiums and the related commission equity at December 31, 2002:

	ASSUMED		CEDED		NET	
	Unearned Premiums	Commission Equity	Unearned Premiums	Commission Equity	Unearned Premiums	Commission Equity
Affiliates	\$18,226,687	\$3,872,508	\$3,925,770	\$ 804,115	\$14,300,917	\$3,068,393
All Other	0	0	262,679	27,963	(262,679)	(27,963)
Totals	\$18,226,687	\$3,872,508	\$4,188,449	\$ 832,078	\$14,038,238	\$3,040,430

Direct Unearned Premium Reserve \$4,611,140

(2) Amounts accrued at December 31, 2002 for contingent and other profit commissions are as follows:

	Direct	Assumed	Ceded	Net
Contingent Commissions	\$62,226	\$ 0	\$ 0	\$62,226
All Other	0	0	0	0
Totals	\$62,226	\$ 0	\$ 0	\$62,226

#### D. Uncollectible Reinsurance

None

#### E. Commutation of Ceded Reinsurance

The Company commuted three reinsurance treaties with Fremont Indemnity Company effective May 10, 2001. The treaties were effective for losses incurred during the period from April 17, 1979 to December 31, 1982. The commuted reinsurance coverage was for a 20% share of casualty losses of up to \$950,000 in excess of \$50,000, per occurrence. The amount received by the Company as the result of the commutation agreement of \$365,000, was first applied to \$152,622 of recoverable loss and loss adjusting expense that had previously been recorded by the Company. The remaining \$212,378 was recorded as a reinsured loss recovery, and correspondingly, the Company increased reserves for unpaid losses by \$212,378, thus resulting in no net effect on losses and loss adjusting expenses incurred in the current period. The increased reserves were posted to recognize the effect of releasing the reinsurer from its obligation under the treaties.

#### F. Retroactive Reinsurance

## NOTES TO FINANCIAL STATEMENTS

Not applicable

### 23. RETROSPECTIVELY RATED CONTRACTS and CONTRACTS SUBJECT to DETERMINATION

Not applicable

### 24. CHANGES in INCURRED LOSSES and LOSS ADJUSTMENT EXPENSES

Reserves for incurred losses and loss adjustment expenses, including adjusting and other payments, attributable to insured events of prior years increased by approximately \$955,000 in the current year as a result of reestimation of unpaid losses and loss adjustment expenses, principally on the Commercial Multiple Peril line of business. This increase is the result of ongoing analysis of recent development trends and additional information regarding individual claims.

### 25. INTERCOMPANY POOLING ARRANGEMENTS

On July 1, 1999 the Company entered into a reinsurance pooling agreement (Pool E) with its parent, Colony Insurance Company (Colony), and another affiliate, Colony National Insurance Company (Colony National). Under the terms of the agreement, all business written since July 1, 1999 and the unearned premium, unpaid loss and unpaid adjusting expense reserves on that date for accident years 1996 and after, and the unpaid loss and unpaid adjusting expense reserve development on all losses incurred prior to 1996, are to be shared on the basis of 15% to the Company, 40% to Colony National and 45% to Colony. Business subject to the pool is all net retained business after all other reinsurance.

### 26. STRUCTURED SETTLEMENTS

Not applicable

### 27. HIGH DEDUCTIBLES

Not applicable

### 28. DISCOUNTING of LIABILITIES for UNPAID LOSSES or UNPAID LOSS ADJUSTMENT EXPENSES

Not applicable

### 29. ASBESTOS and ENVIRONMENTAL RESERVES

#### A. Asbestos Reserves

The Company has exposure to asbestos claims arising from the sale of general liability insurance written on an occurrence basis. The Company identified seven insureds that had potential liability for asbestos claims. These insureds had policy terms of up to five years (the latest of which expired in 1989). In addition, these insureds were relatively small manufacturers or distributors who sold limited use products, therefore these asbestos related claim liabilities cannot be projected by traditional loss reserving techniques. Case reserves (and the cost of related litigation) have been established when sufficient information has been developed to indicate the involvement of a specific insurance policy. In addition, incurred but not reported reserves have been established to cover additional exposure on both known and unasserted claims.

Most of the incurred losses and loss adjusting expense, and most of the claims activity was attributable to one insured. At December 31, 2000 the Company had paid all claims against policies issued to this insured and there is no remaining exposure.

As of December 31, 2002, reserves for unpaid losses and loss adjustment expense were closed on all but three of the above mentioned seven insureds, with an expectation that no further claims will be asserted.

The Company's asbestos related losses (including the cost of related litigation) for each of the five most recent calendar years are as follows:

	GROSS OF REINSURANCE				
	1998	1999	2000	2001	2002
Beginning Reserve	\$2,931,135	\$1,697,030	\$989,997	\$513,389	\$720,894
Incurring losses and loss adjustment expense	(28,762)	(688)	128,170	216,155	224,423
Calendar year payments for losses and loss adjustment expenses	1,205,343	706,345	604,778	8,650	279,507
Ending Reserve	\$1,697,030	\$ 989,997	\$513,389	\$720,894	\$665,810
	NET OF REINSURANCE				
Beginning Reserve	\$ 709,274	\$ 323,575	\$959,997	\$430,207	\$636,572
Incurring losses and loss adjustment expense	(34,032)	128,751	94,909	(108,682)	33,663
Calendar year payments for losses and loss adjustment expenses	351,667	(507,671)	624,699	(315,047)	35,565
Ending Reserve	\$ 323,575	\$ 959,997	\$430,207	\$636,572	\$634,670

In 2002 the Company reversed \$223,997 of reinsurance recoverables on losses that were determined to be uncollectable. This adjustment accounts for nearly all of the incurred loss in 2002

At December 31, 2002 the Company held IBNR reserves of \$296,238 gross and net.

The Company held \$69,572 on a gross basis and \$63,432 on a net basis for future allocated loss adjustment expenses (including the cost of related litigation) at December 31, 2002.

Refer to Note 25 for a description of intercompany pooling arrangements.

#### B. Environmental Reserves

Not applicable

### 30. SUBSCRIBER SAVINGS ACCOUNTS

Not applicable

### 31. FINANCIAL GUARANTY EXPOSURES

Not applicable

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	22,363,533	33.140	22,363,533	33.140
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	4,503,907	6.674	4,503,907	6.674
1.22 Issued by U.S. government sponsored agencies				
1.3 Foreign government (including Canada, excluding mortgage-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations				
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations				
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA	782,030	1.159	782,030	1.159
1.512 Issued by FNMA and FHLMC	7,369,963	10.921	7,369,963	10.921
1.513 Privately issued				
1.52 CMOs and REMICs:				
1.521 Issued by FNMA and FHLMC	2,083,912	3.088	2,083,912	3.088
1.522 Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC				
1.523 All other privately issued	8,181,938	12.125	8,181,938	12.125
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	17,257,964	25.574	17,257,964	25.574
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	600,000	0.889	600,000	0.889
3.3 Publically traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	1,513,082	2.242	1,513,082	2.242
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated	370,647	0.549	370,647	0.549
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 \$ ..... of property acquired in satisfaction of debt)				
5.3 Property held for sale (\$ ..... including property acquired in satisfaction of debt)				
6. Policy loans				
7. Receivables for securities				
8. Cash and short-term investments	2,454,459	3.637	2,454,459	3.637
9. Other invested assets				
10. Total invested assets	67,481,435	100.000	67,481,435	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? Ohio
- 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 (X) No ( )
- 2.2 If yes, date of change:  
If not previously filed, furnish herewith a certified copy of the instrument as amended. 04/01/2002
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made: 12/31/2000
- 3.2 State the as of date of 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. 12/31/2000
- 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). 04/30/2002
- 3.4 By what department or departments?  
Ohio
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes (X) No ( )  
 4.12 renewals? Yes (X) No ( )
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes ( ) 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 name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any reporting entity that has ceased to exist as a result of the merger or consolidation.

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

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

1 Nationality	2 Type of Entity
.....	.....
.....	.....
.....	.....

**GENERAL INTERROGATORIES (continued)**

8. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
 ERNST & YOUNG LLP, ONE JAMES CENTER, SUITE 1000  
 901 EAST CARY STREET, RICHMOND, VA 23219

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?  
 BRYAN Z. BROWN, F. C. A. S., M. A. A. A., OF THE FIRM, MILLIMAN USA  
 15800 BLUEMOUND ROAD, SUITE 400, BROOKFIELD, WI 53005-6069

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 ( )

10.3 Have there been any changes made to any of the trust indentures during the year? Yes ( ) No ( )

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 end of year (inclusive of Separate Accounts, exclusive of policy loans):

14.21 To directors or other officers \$ .....  
 14.22 To stockholders 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 Statements 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	1,000	2,500.00	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:  
.....

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 the 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 (X) No ( )

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
WACHOVIA BANK .....	740 15TH STREET NW, WASHINGTON, DC 20005 .....
.....	.....

**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 (X) No ( )

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

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason
FIRST UNION NATIONAL BANK .....	WACHOVIA BANK .....	05/31/2002	NAME CHANGE .....
.....	.....	.....	.....
.....	.....	.....	.....

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

1 Central Registration Depository Number(s)	2 Name	3 Address
.....	GENERAL RE - NEW ENGLAND ASSE	76 BATTERSON PARK ROAD, FARMINGTON, CT 06032 .....
.....	.....	.....
.....	.....	.....

**OTHER**

23.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any? \$ ..... 28,700

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
Insurance Services Office .....	\$ ..... 17,358
.....	\$ .....
.....	\$ .....
.....	\$ .....

24.1 Amount of payments for legal expenses, if any? \$ ..... 1,981

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
Leclair Ryan .....	\$ ..... 561
Vorys, Sater, Seymour .....	\$ ..... 558
.....	\$ .....
.....	\$ .....

25.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments 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
.....	\$ .....
.....	\$ .....
.....	\$ .....
.....	\$ .....

**GENERAL INTERROGATORIES (continued)**  
**PART 2 - PROPERTY AND 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 Line (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 ( )
- 3.2 Does the reporting entity issue non-assessable policies? Yes ( ) No ( )
- 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 ( )
- 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 any Attorney-in-fact compensation, contingent on fulfillment of certain conditions been deferred? Yes ( ) No ( )
- 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?  
 WORKERS' COMPENSATION REINSURED 100% BY AN AFFILIATE, ROCKWOOD CASUALTY INSURANCE COMPANY, WHICH HAS CATASTROPHE REINSURANCE.  
 .....
- 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:  
 EVALUATION FOR HURRICANE EXPOSURE IS MADE ANNUALLY USING GENERAL REINSURANCE CORP. AS A CONSULTANT, AND USING IRAS SOFTWARE MODELING. HURRICANE EXPOSURE IN TEXAS AND FLORIDA IS THE GREATEST EXPOSURE.  
 .....
- 5.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss?  
 ADEQUATE CATASTROPHIC REINSURANCE FOR SUCH EXPOSURE IS IN FORCE.  
 .....
- 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.  
 .....  
 .....
- 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 reinsurers's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss ratio cap, an aggregate limit or any similar provisions)? Yes ( ) No (X)
- 6.2 If yes, indicate the number of reinsurance contracts containing such provisions. ....

**GENERAL INTERROGATORIES (continued)**  
**PART 2 - PROPERTY AND CASUALTY INTERROGATORIES**

- 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 the 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 charged on account of such reinsurances a reserve equal to that which the original reporting entity would have been required to charge had it retained the risks. Has this been done? Yes (X) No ( ) N/A ( )
- 9.1 Has this 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 assets 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 assets 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 (X) N/A ( )
- 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 the 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 the 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): \$ ..... 500,000
- 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. ..... 2
- 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<br>Direct Losses<br>Incurred | 2<br>Direct Losses<br>Unpaid | 3<br>Direct Written<br>Premium | 4<br>Direct Premium<br>Unearned | 5<br>Direct Premium<br>Earned |
|------------------|--------------------------------|------------------------------|--------------------------------|---------------------------------|-------------------------------|
| 15.11 Home       | .....                          | .....                        | .....                          | .....                           | .....                         |
| 15.12 Products   | .....                          | .....                        | .....                          | .....                           | .....                         |
| 15.13 Automobile | .....                          | .....                        | .....                          | .....                           | .....                         |
| 15.14 Other*     | .....                          | .....                        | .....                          | .....                           | .....                         |

\* Disclose type of coverage:  
 .....

## FIVE-YEAR HISTORICAL DATA

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

	1 2002	2 2001	3 2000	4 1999	5 1998
Gross Premiums Written (Page 8, Part 1B, Columns 1, 2 and 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 and 19.3, 19.4)	32,323,978	21,946,807	19,397,728	15,805,901	14,156,585
2. Property lines (Lines 1, 2, 9, 12, 21 and 26)	3,602,859	3,164,686	1,959,284	981,121	895,105
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 and 27)	6,784,103	5,532,680	4,499,249	4,539,991	3,650,635
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 and 33)	(479)	(25,779)	206,906	343,649	
5. Nonproportional reinsurance lines (Lines 30, 31 and 32)					
6. Total (Line 34)	42,710,461	30,618,394	26,063,167	21,670,662	18,702,325
Net Premiums Written (Page 8, Part 1B, Column 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 and 19.3, 19.4)	23,747,521	11,224,419	7,632,182	6,455,829	9,395,932
8. Property lines (Lines 1, 2, 9, 12, 21 and 26)	3,148,753	1,276,333	1,241,831	668,413	611,795
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 and 27)	5,996,063	4,546,015	3,977,826	3,945,559	3,102,346
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 and 33)	(479)	(25,779)	206,906	343,649	
11. Nonproportional reinsurance lines (Line 30, 31 and 32)					
12. Total (Line 34)	32,891,858	17,020,988	13,058,745	11,413,450	13,110,073
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	(1,063,998)	(3,319)	31,098	599,370	(777,036)
14. Net investment gain (loss) (Line 11)	2,845,137	3,978,575	3,002,785	1,968,487	2,629,773
15. Total other income (Line 15)	4,638	249	1,996	877	3,963
16. Dividends to policyholders (Line 17)					
17. Federal and foreign income taxes incurred (Line 19)	1,522,192	1,563,004	1,114,603	976,469	539,596
18. Net income (Line 20)	263,585	2,412,501	1,921,276	1,592,265	1,317,104
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding Protected Cell (Page 2, Line 26, Column 3)	72,953,618	55,797,537	46,926,518	42,189,309	42,678,515
20. Agents' balances or uncollected premiums (Page 2, Column 3)					
20.1 In course of collection (Line 10.1)	708,083	641,432	235,378	(54,180)	1,946
20.2 Deferred and not yet due (Line 10.2)					
20.3 Accrued retrospective premiums (Line 10.3)					
21. Total liabilities excluding Protected Cell (Page 3, Line 24)	53,478,979	37,528,398	30,098,684	26,188,170	26,357,237
22. Losses (Page 3, Line 1 and Line 2)	19,457,810	14,838,526	13,052,478	12,808,335	12,960,247
23. Loss adjustment expenses (Page 3, Line 3)	4,793,363	3,680,728	3,373,729	3,225,173	3,245,154
24. Unearned premiums (Page 3, Line 9)	18,649,378	8,601,087	6,515,364	5,364,449	6,366,597
25. Capital paid up (Page 3, Line 28 and Line 29)	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
26. Surplus as regards policyholders (Page 3, Line 35)	19,474,639	18,269,139	16,827,834	16,001,139	16,321,278
Risk-Based Capital Analysis					
27. Total adjusted capital	19,474,639	18,269,139	16,827,834	16,001,139	16,321,278
28. Authorized control level risk-based capital	4,126,254	2,315,381	2,002,908	1,932,228	2,121,691
Percentage Distribution of Cash and Invested Assets (Page 2, Column 3) (Item divided by Page 2, Line 9, Column 3) x 100.0					
29. Bonds (Line 1)	92.7	90.9	84.6	82.8	86.1
30. Stocks (Line 2.1 and Line 2.2)	3.7	4.5	7.6	5.7	6.7
31. Mortgage loans on real estate (Line 3.1 and Line 3.2)					
32. Real estate (Lines 4.1, 4.2 and 4.3)					
33. Cash and short-term investments (Line 5)	3.6	4.6	7.8	11.5	7.2
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 (Schedule D, Summary, Line 25, Column 1)					
39. Affiliated preferred stocks (Schedule D, Summary, Line 39, Column 1)					
40. Affiliated common stocks (Schedule D, Summary, Line 53, Column 2)					
41. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Column 5 Line 11)					
42. Affiliated mortgage loans on real estate					
43. All other affiliated					
44. Total of above Line 38 through Line 43					
45. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 44 above divided by Page 3, Column 1, Line 34 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) .....	68,227	(371,694)	458,350	(370,667)	(91,139)
47. Dividends to stockholders (Line 34) .....		(1,800,000)	(1,500,000)	(1,500,000)	
48. Change in surplus as regards policyholders for the year (Line 37) .....	1,205,500	1,441,305	826,696	(320,140)	2,611,382
Gross Losses Paid (Page 9, Part 2, Columns 1 and 2)					
49. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 and 19.3, 19.4) .....	9,652,398	8,610,255	5,791,636	7,540,183	3,883,324
50. Property lines (Lines 1, 2, 9, 12, 21 and 26) .....	1,282,676	1,554,719	956,735	622,965	354,528
51. Property and liability combined lines (Lines 3, 4, 5, 8, 22 and 27) .....	2,402,598	2,516,652	1,895,295	1,036,995	1,854,896
52. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 and 33) .....	29,046	168,312	288,385	(267,857)	
53. Nonproportional reinsurance lines (Lines 30, 31, and 32) .....					
54. Total (Line 34) .....	13,366,718	12,849,938	8,932,051	8,932,286	6,092,748
Net Losses Paid (Page 9, Part 2, Column 4)					
55. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 and 19.3, 19.4) .....	3,181,166	1,958,132	2,385,263	4,931,960	2,717,120
56. Property lines (Lines 1, 2, 9, 12, 21 and 26) .....	635,266	603,568	577,700	444,206	184,542
57. Property and liability combined lines (Lines 3, 4, 5, 8, 22 and 27) .....	2,249,313	2,156,866	1,567,171	668,311	1,731,110
58. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 and 33) .....	29,046	168,312	288,385	(267,857)	
59. Nonproportional reinsurance lines (Lines 30, 31, and 32) .....					
60. Total (Line 34) .....	6,094,791	4,886,878	4,818,519	5,776,620	4,632,772
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) .....	46.9	44.7	42.5	45.3	51.7
63. Loss expenses incurred (Line 3) .....	16.5	18.0	19.3	17.3	18.3
64. Other underwriting expenses incurred (Line 4) .....	41.2	37.3	37.9	32.6	36.0
65. Net underwriting gain (loss) (Line 8) .....	(4.7)		0.3	4.8	(6.1)
Other Percentages					
66. Other underwriting expenses to net premiums written (Page 4, Lines 4 plus 5 minus 15 divided by Page 8, Part 1B, Column 6, Line 34 x 100.0) .....	28.6	32.7	34.6	35.4	35.2
67. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 plus Line 3 divided by Page 4, Line 1 x 100.0) .....	63.4	62.7	61.8	62.6	70.0
68. Net premiums written to policyholders' surplus (Page 8, Part 1B, Column 6, Line 34 divided by Page 3, Line 35, Column 1 x 100.0) .....	168.9	93.2	77.6	71.3	80.3
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, Column 11) .....	919	214	(58)	(153)	908
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, Column 1 x 100.0) .....	5.0	1.3	(0.4)	(0.9)	6.6
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, Column 12) .....	1,494	238	(479)	860	400
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, Column 2 x 100.0) .....	8.9	1.5	(2.9)	6.3	3.8

**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
<b>BONDS</b>					
Governments (Including all obligations guaranteed by governments)	1. United States .....	23,145,563	24,687,320	23,332,489	22,933,022
	2. Canada .....				
	3. Other Countries .....				
	4. Totals .....	23,145,563	24,687,320	23,332,489	22,933,022
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 .....	13,957,782	13,972,519	13,973,999	14,029,350
	14. Canada .....				
	15. Other Countries .....				
	16. Totals .....	13,957,782	13,972,519	13,973,999	14,029,350
Public Utilities (unaffiliated)	17. United States .....	3,233,379	3,321,840	3,239,925	3,000,000
	18. Canada .....				
	19. Other Countries .....				
	20. Totals .....	3,233,379	3,321,840	3,239,925	3,000,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States .....	22,206,524	22,694,807	22,285,366	21,524,713
	22. Canada .....				
	23. Other Countries .....				
	24. Totals .....	22,206,524	22,694,807	22,285,366	21,524,713
Parent, Subsidiaries and Affiliates	25. Totals .....				
	26. Total Bonds .....	62,543,248	64,676,486	62,831,779	61,487,085
<b>PREFERRED STOCKS</b>					
Public Utilities (unaffiliated)	27. United States .....				
	28. Canada .....				
	29. Other Countries .....				
	30. Totals .....				
Banks, Trust and Insurance Companies (unaffiliated)	31. United States .....				
	32. Canada .....				
	33. Other Countries .....				
	34. Totals .....				
Industrial and Miscellaneous (unaffiliated)	35. United States .....	600,000	600,000	600,000	
	36. Canada .....				
	37. Other Countries .....				
	38. Totals .....	600,000	600,000	600,000	
Parent, Subsidiaries and Affiliates	39. Totals .....				
	40. Total Preferred Stocks .....	600,000	600,000	600,000	
<b>COMMON STOCKS</b>					
Public Utilities (unaffiliated)	41. United States .....				
	42. Canada .....				
	43. Other Countries .....				
	44. Totals .....				
Banks, Trust and Insurance Companies (unaffiliated)	45. United States .....				
	46. Canada .....				
	47. Other Countries .....				
	48. Totals .....				
Industrial and Miscellaneous (unaffiliated)	49. United States .....	1,883,729	1,883,729	1,664,364	
	50. Canada .....				
	51. Other Countries .....				
	52. Totals .....	1,883,729	1,883,729	1,664,364	
Parent, Subsidiaries and Affiliates	53. Totals .....				
	54. Total Common Stocks .....	1,883,729	1,883,729	1,664,364	
	55. Total Stocks .....	2,483,729	2,483,729	2,264,364	
	56. Total Bonds and Stocks .....	65,026,977	67,160,215	65,096,143	

(a) The aggregate value of bonds which are valued at other than actual fair value is \$ 22,563,335 .

**SCHEDULE D - VERIFICATION BETWEEN YEARS**

1. Book/adjusted carrying value of bonds and stocks, prior year .....	50,027,969	6. Foreign Exchange Adjustment:	
2. Cost of bonds and stocks acquired, Column 6, Part 3 .....	21,229,425	6.1 Column 17, Part 1 .....	
3. Increase (decreased) by adjustment:		6.2 Column 13, Part 2, Section 1 .....	
3.1 Column 16, Part 1 .....	(119,010)	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 .....	104,967	7. Book/adjusted carrying value at end of current period .....	65,026,976
3.4 Column 10, Part 4 .....	8,477	8. Total valuation allowance .....	
4. Total gain (loss), Column 14, Part 4 .....	(10,845)	9. Subtotal (Line 7 plus Line 8) .....	65,026,976
5. Deduct consideration for bonds and stocks disposed of Column 6, Part 4 .....	6,214,007	10. Total nonadmitted amounts .....	
		11. Statement value of bonds and stocks, current period .....	65,026,976

**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 (Columns 1 - 2)	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10 Salvage and Subrogation Received		11 Total Net Paid (Columns 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	XXX	XXX	XXX	30	32	28	35	1			(8)	XXX
2. 1993	11,087	934	10,153	4,538	(721)	1,535	727	307			6,374	XXX
3. 1994	10,094	455	9,639	5,367	596	1,987	1,242	281			5,797	XXX
4. 1995	3,619	2,175	1,444	745	1,141	1,266	283	65			652	XXX
5. 1996	14,290	1,647	12,643	6,287	714	1,846	280	423			7,562	XXX
6. 1997	14,631	1,658	12,973	6,963	1,181	1,906	152	452			7,988	XXX
7. 1998	16,533	3,701	12,832	6,356	1,268	1,642	141	444			7,033	XXX
8. 1999	21,317	8,902	12,415	9,202	4,638	2,219	562	477			6,698	XXX
9. 2000	23,834	11,925	11,909	10,128	6,806	1,496	576	317			4,559	XXX
10. 2001	28,860	13,925	14,935	8,908	5,705	880	282	298			4,099	XXX
11. 2002	33,265	10,421	22,844	3,043	1,410	221	45	192			2,001	XXX
12. Totals	XXX	XXX	XXX	61,567	22,770	15,026	4,325	3,257			52,755	XXX

	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 & 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.	360	60	382		111	19	2		6			782	XXX
2.	35	35	25	15	12	12	6		3			19	XXX
3.	68	58	67	2	32	23	17	2	34			133	XXX
4.	129	129	75	37	49	49	18		10			66	XXX
5.	418	265	152	61	83	56	35	16	19			309	XXX
6.	345	72	329	136	71	25	74	30	31			587	XXX
7.	547	61	862	460	111	30	197	109	56			1,113	XXX
8.	1,849	742	1,082	538	273	82	243	122	100			2,063	XXX
9.	3,298	2,143	2,263	1,194	280	27	422	188	124			2,835	XXX
10.	3,092	1,324	3,701	1,571	320	61	707	245	186			4,805	XXX
11.	3,067	1,000	9,535	2,320	205	23	1,945	354	484			11,539	XXX
12.	13,208	5,889	18,473	6,334	1,547	407	3,666	1,066	1,053			24,251	XXX

	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.	XXX	XXX	XXX	XXX	XXX	XXX			XXX	682	100
2.	6,461	68	6,393	58.3	7.3	63.0				10	9
3.	7,853	1,923	5,930	77.8	422.6	61.5				75	58
4.	2,357	1,639	718	65.1	75.4	49.7				38	28
5.	9,263	1,392	7,871	64.8	84.5	62.3				244	65
6.	10,171	1,596	8,575	69.5	96.3	66.1				466	121
7.	10,215	2,069	8,146	61.8	55.9	63.5				888	225
8.	15,445	6,684	8,761	72.5	75.1	70.6				1,651	412
9.	18,328	10,934	7,394	76.9	91.7	62.1				2,224	611
10.	18,092	9,188	8,904	62.7	66.0	59.6				3,898	907
11.	18,692	5,152	13,540	56.2	49.4	59.3				9,282	2,257
12.	XXX	XXX	XXX	XXX	XXX	XXX			XXX	19,458	4,793

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 1993	2 1994	3 1995	4 1996	5 1997	6 1998	7 1999	8 2000	9 2001	10 2002	11 One Year	12 Two Year
1. Prior	6,130	8,013	8,337	8,536	8,108	8,198	8,444	8,491	8,525	8,610	85	119
2. 1993	5,773	5,919	5,797	5,770	5,943	6,024	6,113	6,070	6,072	6,083	11	13
3. 1994	XXX	5,628	5,526	5,373	5,197	5,505	5,551	5,507	5,566	5,615	49	108
4. 1995	XXX	XXX	783	669	428	608	652	662	674	643	(31)	(19)
5. 1996	XXX	XXX	XXX	7,439	7,425	7,570	7,285	7,328	7,377	7,429	52	101
6. 1997	XXX	XXX	XXX	XXX	7,919	8,012	7,835	7,705	7,942	8,092	150	387
7. 1998	XXX	XXX	XXX	XXX	XXX	7,543	7,427	7,218	7,382	7,646	264	428
8. 1999	XXX	XXX	XXX	XXX	XXX	XXX	7,490	7,758	7,497	8,184	687	426
9. 2000	XXX	XXX	XXX	XXX	XXX	XXX	XXX	7,022	6,940	6,953	13	(69)
10. 2001	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	8,781	8,420	(361)	XXX
11. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	12,864	XXX	XXX
12. Totals											919	1,494

**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 1993	2 1994	3 1995	4 1996	5 1997	6 1998	7 1999	8 2000	9 2001	10 2002	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
1. Prior	0 0 0	3,505	4,785	6,362	7,212	7,651	7,284	8,011	7,843	7,834	XXX	XXX
2. 1993	1,449	2,853	4,180	5,086	5,529	5,805	5,807	5,929	5,882	6,067	XXX	XXX
3. 1994	XXX	1,207	2,326	3,672	4,339	4,825	5,348	5,475	5,485	5,516	XXX	XXX
4. 1995	XXX	XXX	36	(305)	(385)	(80)	49	277	483	587	XXX	XXX
5. 1996	XXX	XXX	XXX	1,787	3,190	4,376	6,263	6,653	6,946	7,139	XXX	XXX
6. 1997	XXX	XXX	XXX	XXX	2,076	3,533	5,252	6,207	7,094	7,536	XXX	XXX
7. 1998	XXX	XXX	XXX	XXX	XXX	1,959	3,488	4,510	5,545	6,589	XXX	XXX
8. 1999	XXX	XXX	XXX	XXX	XXX	XXX	2,062	3,643	4,766	6,221	XXX	XXX
9. 2000	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,416	3,015	4,242	XXX	XXX
10. 2001	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,977	3,801	XXX	XXX
11. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,809	XXX	XXX

**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 1993	2 1994	3 1995	4 1996	5 1997	6 1998	7 1999	8 2000	9 2001	10 2002
1. Prior	3,215	1,684	1,021	491	115	93	171	127	307	384
2. 1993	2,988	1,888	759	168	194	90	295	141	190	16
3. 1994	XXX	3,085	1,721	796	223	214	90	32	51	80
4. 1995	XXX	XXX	689	705	565	615	535	372	189	56
5. 1996	XXX	XXX	XXX	3,996	2,966	1,965	431	226	150	110
6. 1997	XXX	XXX	XXX	XXX	4,319	2,852	1,255	506	308	237
7. 1998	XXX	XXX	XXX	XXX	XXX	3,997	2,693	1,517	795	490
8. 1999	XXX	XXX	XXX	XXX	XXX	XXX	3,665	2,588	1,053	665
9. 2000	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,917	2,411	1,303
10. 2001	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	4,986	2,592
11. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	8,806

**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 Column 2)
		2 Direct Premiums Written	3 Direct Premiums Earned						
1. Alabama	AL	Yes							
2. Alaska	AK	No							
3. Arizona	AZ	No							
4. Arkansas	AR	Yes							
5. California	CA	No							
6. Colorado	CO	Yes							
7. Connecticut	CT	No							
8. Delaware	DE	No							
9. Dist. Columbia	DC	Yes	63,887	65,972		1,030	23,238		
10. Florida	FL	Yes	1,012,695	1,404,893	620,002	289,846	672,478		
11. Georgia	GA	Yes							
12. Hawaii	HI	No							
13. Idaho	ID	Yes							
14. Illinois	IL	No							
15. Indiana	IN	Yes							
16. Iowa	IA	No							
17. Kansas	KS	No							
18. Kentucky	KY	No							
19. Louisiana	LA	No							
20. Maine	ME	No							
21. Maryland	MD	Yes	1,103,791	1,417,166	1,564,695	1,650,361	1,838,820		
22. Massachusetts	MA	No							
23. Michigan	MI	No							
24. Minnesota	MN	No							
25. Mississippi	MS	Yes							
26. Missouri	MO	No							
27. Montana	MT	Yes							
28. Nebraska	NE	No							
29. Nevada	NV	Yes	32,978	83,760		83,903	196,297		
30. New Hampshire	NH	No							
31. New Jersey	NJ	No							
32. New Mexico	NM	No							
33. New York	NY	No							
34. North Carolina	NC	Yes	22,487	116,579	78,560	(47,004)	16,759		
35. North Dakota	ND	No							
36. Ohio	OH	Yes			(27)	533,366	1,574,481		
37. Oklahoma	OK	No							
38. Oregon	OR	Yes	674,117	709,267	458,673	606,663	476,161		
39. Pennsylvania	PA	Yes	1,228,303	1,315,670	3,177,390	2,838,151	3,455,039		
40. Rhode Island	RI	No							
41. South Carolina	SC	Yes	614,230	1,860,454	1,610,761	1,074,329	3,089,770		
42. South Dakota	SD	Yes							
43. Tennessee	TN	Yes							
44. Texas	TX	No							
45. Utah	UT	Yes							
46. Vermont	VT	No							
47. Virginia	VA	No	5,956,073	4,488,297	362,014	1,430,785	2,495,685		
48. Washington	WA	No	6,278	3,461					
49. West Virginia	WV	No	1,825	730					
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	XXX							
58. Totals	(a) 20		10,716,664	11,466,249	7,872,068	8,461,430	13,838,728		
DETAILS OF WRITE-INS									
5701.		XXX							
5702.		XXX							
5703.		XXX							
5798. Summary of remaining write-ins for Line 57 from overflow page		XXX							
5799. Totals (Line 5701 through Line 5703 plus Line 5798) (Line 57 above)		XXX							

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

Premiums are allocated to states based on location of risk.

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

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

**PART 1 - ORGANIZATIONAL CHART**

Company Name	Domiciliary Location	Federal ID #	NAIC Co. #	Percentage Owned By Parent
<b>ARGONAUT GROUP, INC.</b>	Delaware	95-4057601		
Argonaut Management Services, Inc.	Delaware	74-2999179		100%
Captive Advisory Services, Inc.	Vermont	75-2991563		100%
Aegean Managers, Inc.	Delaware	71-0889976		100%
Trident Insurance Services LLC	Texas	74-2948177		100%
Argonaut Insurance Company	California	94-1390273	19801	100%
Argonaut Midwest Insurance Company	Illinois	36-2489372	19828	100%
Argonaut Northwest Insurance Company	Idaho	94-6095888	19836	100%
Argonaut Southwest Insurance Company	Louisiana	94-6064785	19844	100%
Georgia Insurance Company	Georgia	58-1164048	26409	100%
Argonaut Great Central Insurance Company	Illinois	37-0301640	19860	100%
Alpha Credit Corp	Illinois	95-3166195		100%
Central Insurance Management, Inc.	Illinois	37-1241304		100%
Insurance Agency of Central Illinois	Ohio	37-1275712		100%
AGI Properties, Inc.	California	95-2746313		100%
AGI Limited Risks	California	95-2872322		100%
Front Royal, Inc.	Delaware	74-2999180		100%
Colony Management Services, Inc.	Virginia	54-1737802		100%
Colony Insurance Company	Virginia	54-1423096	39993	100%
Colony Specialty Insurance Company	Ohio	34-1266871	36927	100%
Colony National Insurance Company	Virginia	65-0075940	34118	32%
Colony National Insurance Company	Virginia	65-0075940	34118	13%
Colony Agency Services, Inc.	Virginia	22-2808825		100%
Fulcrum Underwriting Managers, Inc	Arizona	71-0882294		100%
Rockwood Casualty Insurance Company	Pennsylvania	25-1620138	35505	100%
Somerset Casualty Insurance Company	Pennsylvania	23-2904771	10726	100%
Colony National Insurance Company	Virginia	65-0075940	34118	55%
Mid-State Insurance Underwriters, Inc.	Pennsylvania	25-1682000		100%
Comprehensive Casualty Services, Inc.	Pennsylvania	25-1744568		100%
Coal Operators Indemnity Company	Pennsylvania	25-1390566		100%

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

**PART 1 - ORGANIZATIONAL CHART**

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