

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND  
AFFILIATES  
CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS AND  
SUPPLEMENTAL SCHEDULES  
DECEMBER 31, 2006 AND 2005**

**NAIC Company Codes 19887, 29211, 37524, 19879, 26689, 29351, 38156, 26662, 40703,  
15954, 12998 & 10698, Group Code 0215**

**(With Independent Auditors' Report Thereon)**

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS AND SCHEDULES  
DECEMBER 31, 2006 AND 2005**

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|--|--------------|
| <b>Independent Auditors' Report</b>  | <b>1-2</b>   |
| <b>Consolidated Statutory Basis Statements of Admitted Assets, Liabilities and Capital and Surplus at December 31, 2006 and 2005</b>                                   | <b>3</b>     |
| <b>Consolidated Statutory Basis Statements of Income for the Years Ended December 31, 2006 and 2005</b>  | <b>4</b>     |
| <b>Consolidated Statutory Basis Statements of Changes in Capital and Surplus for the Years Ended December 31, 2006 and 2005</b>  | <b>5</b>     |
| <b>Consolidated Statutory Basis Statements of Cash Flows for the Years Ended December 31, 2006 and 2005</b>  | <b>6</b>     |
| <b>Notes to the Consolidated Statutory Basis Financial Statements</b>  | <b>7-26</b>  |
| <b>Consolidating Schedule - Information Regarding Statutory Basis Statements of Admitted Assets, Liabilities and Capital and Surplus at December 31, 2006 and 2005</b> | <b>27-28</b> |
| <b>Consolidating Schedule - Information Regarding Statutory Basis Statements of Income for the Years Ended December 31, 2006 and 2005</b>                              | <b>29-30</b> |
| <b>Consolidating Schedule - Information Regarding Statutory Basis Statements of Changes in Capital and Surplus for the Years Ended December 31, 2006 and 2005</b>      | <b>31-32</b> |
| <b>Consolidating Schedule - Information Regarding Statutory Basis Statements of Cash Flows for the Years Ended December 31, 2006 and 2005</b>                          | <b>33-34</b> |
| <b>Consolidating Entries</b>   | <b>35</b>    |
| <b>Schedule 1 – Supplemental Consolidated Summary Investment Schedule</b>  | <b>36</b>    |
| <b>Schedule 2 – Supplemental Investment Risks Interrogatories Schedule</b>   | <b>37-43</b> |
| <b>Schedule 3 – Supplemental Reinsurance Interrogatories Schedule</b>  | <b>44-45</b> |



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Trinity Universal Insurance Company and Subsidiaries and Affiliates

We have audited the accompanying consolidated statutory basis statements of admitted assets, liabilities and capital and surplus of Trinity Universal Insurance Company and Subsidiaries and Affiliates (the "Company") as of December 31, 2006 and 2005, and the related consolidated statutory basis statements of income, changes in capital and surplus, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

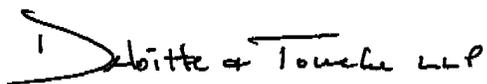
As described more fully Note 1 to the consolidated statutory basis financial statements, these consolidated statutory basis financial statements were prepared in conformity with accounting practices prescribed or permitted by the Texas, Wisconsin, Kansas, Louisiana, and Oregon Insurance Departments, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such consolidated statutory basis financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1 to the consolidated statutory basis financial statements.

Our 2006 audit was conducted for the purpose of forming an opinion on the basic 2006 consolidated statutory basis financial statements taken as a whole. The supplemental summary investment schedule, the consolidated supplemental schedule of investment risks interrogatories, and the supplemental reinsurance interrogatories schedule as of and for the year ended December 31, 2006 are presented for complying with the National Association of Insurance Commissioners' instructions to Annual Audited Financial Reports and are not a required part of the basic 2006 statutory basis financial statements. The consolidating schedules on pages 27-35 are presented for the purpose of additional analysis of the basic 2006 consolidated statutory basis financial statements rather than to present the admitted assets, liabilities, capital and surplus, results of operations, and cash flows of the individual companies, and are not a required part of the basic consolidated statutory basis financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audit of the basic 2006 statutory basis financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2006 statutory basis financial statements taken as a whole.

As discussed in Note 1 to the consolidated statutory basis financial statements, the reporting entity has changed to include additional companies, and the consolidated statutory basic financial statements for 2005 have been restated for comparability.

This report is intended solely for information and use of the board of directors and management of Trinity Universal Insurance Company and Subsidiaries and Affiliates and for filing with the Texas, Wisconsin, Kansas, Louisiana, and Oregon Insurance Departments and other state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive style with a large initial 'D'.

May 29, 2007

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
CONSOLIDATED STATUTORY BASIS STATEMENTS OF  
ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS  
DECEMBER 31, 2006 AND 2005  
(Dollars in Thousands, Except Par Value)

ADMITTED ASSETS

|   | 2006         | 2005         |
|---|--------------|--------------|
| Cash and Invested Assets:                             |              |              |
| Bonds and Notes                                       |              |              |
| (NAIC Market: 2006 - \$1,300,452; 2005 - \$1,535,982) | \$ 1,264,117 | \$ 1,488,755 |
| Preferred Stocks at Statement Value                   |              |              |
| (Amortized Cost: 2006 - \$54,576; 2005 - \$63,099)    | 57,560       | 66,110       |
| Common Stocks at NAIC Market                          |              |              |
| (Cost: 2006 - \$699,382; 2005 - \$575,133)            | 1,149,295    | 1,050,033    |
| Investments in Unconsolidated Subsidiaries            | 185,533      | 183,566      |
| Real Estate at Cost                                   | 1,322        | 1,322        |
| Mortgage Loans on Real Estate                         | 45,041       | 45,061       |
| Cash and Short-term Investments                       | 76,734       | (21,430)     |
| Other Invested Assets                                 | 107,243      | 67,486       |
| Total Cash and Invested Assets                        | 2,886,845    | 2,880,903    |
| Agents' Balances and Uncollected Premiums, Net        | 418,365      | 483,505      |
| Recoverable from Reinsurers                           | 7,477        | 13,130       |
| Accrued Investment Income                             | 20,232       | 23,037       |
| Receivables from Parent and Affiliates                | 5,264        | 2,483        |
| Other Admitted Assets                                 | 14,228       | 14,570       |
| Total Admitted Assets                                 | \$ 3,352,411 | \$ 3,417,628 |

LIABILITIES AND CAPITAL AND SURPLUS

|  |              |              |
|--|--------------|--------------|
| Liabilities:                                   |              |              |
| Reserve for Losses                             | \$ 976,771   | \$ 1,006,164 |
| Reserve for Loss Adjustment Expenses           | 250,877      | 255,744      |
| Unearned and Advance Premiums                  | 700,932      | 736,786      |
| Reinsurance Payable on Paid Losses and         |              |              |
| Loss Adjustment Expenses                       | 7,390        | 4,379        |
| Ceded Reinsurance Premiums Payable             | 2,711        | 4,483        |
| Payable to Parent and Affiliates               | 4,526        | 11,528       |
| Accrued and Deferred Income Taxes              | 140,039      | 139,984      |
| Accrued Expenses and Other Liabilities         | 68,907       | 86,987       |
| Total Liabilities                              | 2,152,153    | 2,246,055    |
| Capital and Surplus:                           |              |              |
| Common Stock, \$50 Par Value, 65,000 Shares    |              |              |
| Authorized, Issued and Outstanding             | 3,250        | 3,250        |
| Additional Paid-in Capital                     | 392,698      | 392,698      |
| Treasury Stock at Cost, 50 Shares at Par Value | (3)          | (3)          |
| Surplus Debenture                              | 2,936        | 2,849        |
| Unassigned Surplus                             | 801,377      | 772,779      |
| Total Capital and Surplus                      | 1,200,258    | 1,171,573    |
| Total Liabilities and Capital and Surplus      | \$ 3,352,411 | \$ 3,417,628 |

The Notes to the Consolidated Statutory Basis Financial Statements are an integral part of these financial statements.

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**CONSOLIDATED STATUTORY BASIS STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**  
(Dollars in Thousands)

|  | <u>2006</u>       | <u>2005</u>       |
|--|-------------------|-------------------|
| <b>Underwriting Income (Loss):</b>   |                   |                   |
| Earned Premiums, Net   | \$ 1,804,915      | \$ 1,803,402      |
| <b>Underwriting Expenses:</b>  |                   |                   |
| Losses Incurred  | 979,056           | 997,564           |
| Loss Adjustment Expenses Incurred  | 201,603           | 228,157           |
| Other Underwriting Expenses  | 568,759           | 578,535           |
| <b>Total Underwriting Expenses</b>   | <u>1,749,418</u>  | <u>1,804,256</u>  |
| <b>Net Underwriting Income (Loss)</b>  | <u>55,497</u>     | <u>(854)</u>      |
| <br>   |                   |                   |
| <b>Net Investment Income:</b>  |                   |                   |
| Investment Income (Net of Investment<br>Expense: 2006 - \$1,250; 2005 - \$531)                       | 112,926           | 109,220           |
| Net Realized Capital Gains (Losses) (Net of Income Tax<br>Expense: 2006 - \$10,167; 2005 - \$24,303) | 13,874            | (2,196)           |
| <b>Net Investment Income</b>   | <u>126,800</u>    | <u>107,024</u>    |
| <br>   |                   |                   |
| <b>Other Income (Loss):</b>  |                   |                   |
| Loss from Agent and Premium Balance Write-offs   | (15,788)          | (12,276)          |
| Net Finance and Service Charges  | 37,476            | 38,912            |
| Other Income (Expense)   | 2,762             | (177)             |
| <b>Total Other Income</b>  | <u>24,450</u>     | <u>26,459</u>     |
| <br>   |                   |                   |
| <b>Income before Dividends to Policyholders<br/>    and Federal Income Taxes</b>                     | 206,747           | 132,629           |
| <b>Dividends to Policyholders</b>  | 479               | 679               |
| <b>Income before Federal Income Taxes</b>  | <u>206,268</u>    | <u>131,950</u>    |
| <b>Federal Income Tax Expense</b>  | 39,330            | 26,804            |
| <b>Net Income</b>  | <u>\$ 166,938</u> | <u>\$ 105,146</u> |

The Notes to the Consolidated Statutory Basis Financial Statements are an integral part of these financial statements.

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**CONSOLIDATED STATUTORY BASIS STATEMENTS**  
**OF CHANGES IN CAPITAL AND SURPLUS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**  
**(Dollars in Thousands)**

|   | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| Balance, Beginning of Year                                  | \$ 1,171,573        | \$ 1,075,053        |
| Net Income  | 166,938             | 105,146             |
| Change in Unrealized Capital Gains                          | (23,744)            | 89,276              |
| Change in Net Deferred Income Tax                           | (7,074)             | 25,530              |
| Change in Nonadmitted Assets                                | 9,899               | (13,525)            |
| Change in Provision for Reinsurance                         | 851                 | (1,382)             |
| Change in Surplus Debenture                                 | 87                  | 81                  |
| Dividends to Shareholder                                    | (115,000)           | (106,000)           |
| Correction of Prior Year Intercompany Balances              | 3,297               | (2,606)             |
| Correction of Prior Year Deferred Taxes on Unrealized Gains | (6,569)             | -                   |
| Balance, End of Year  | <u>\$ 1,200,258</u> | <u>\$ 1,171,573</u> |

The Notes to the Consolidated Statutory Basis Financial Statements are an integral part of these financial statements.

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**CONSOLIDATED STATUTORY BASIS STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**  
(Dollars in Thousands)

|   | 2006               | 2005               |
|---|--------------------|--------------------|
| <b>Cash Provided (Used) by Operations:</b>                          |                    |                    |
| <b>Revenues:</b>  |                    |                    |
| Premiums Collected, Net of Reinsurance                              | \$ 1,833,789       | \$ 1,732,797       |
| Investment Income, Net  | 110,712            | 105,496            |
| Miscellaneous Income  | 24,450             | 26,922             |
| <b>Cash Provided by Revenues</b>                                    | <b>1,968,951</b>   | <b>1,865,215</b>   |
| <b>Benefits and Expenses:</b>                                       |                    |                    |
| Benefits and Loss Related Payments                                  | (1,011,576)        | (982,536)          |
| Commissions and Expense Payments                                    | (788,618)          | (798,112)          |
| Dividends Paid to Policyholders                                     | (479)              | (679)              |
| Federal Income Tax Paid   | (51,800)           | (33,138)           |
| <b>Cash Used for Benefits and Expenses</b>                          | <b>(1,852,473)</b> | <b>(1,814,465)</b> |
| <b>Net Cash Provided by Operations</b>                              | <b>116,478</b>     | <b>50,750</b>      |
| <b>Cash Provided (Used) by Investments:</b>                         |                    |                    |
| <b>Cash Provided from Investments Sold, Matured or Repaid:</b>      |                    |                    |
| Bonds and Notes   | 277,640            | 164,313            |
| Stocks  | 78,512             | 95,418             |
| Other Invested Assets   | 42,300             | 2,585              |
| <b>Total Cash Provided from Investments Sold, Matured or Repaid</b> | <b>398,452</b>     | <b>262,316</b>     |
| <b>Cash Used to Acquire Investments:</b>                            |                    |                    |
| Bonds and Notes   | (52,572)           | (53,947)           |
| Stocks  | (176,148)          | (209,654)          |
| Other Invested Assets   | (77,641)           | (13,098)           |
| <b>Total Cash Used to Acquire Investments</b>                       | <b>(306,361)</b>   | <b>(276,699)</b>   |
| <b>Net Cash Provided (Used) by Investments</b>                      | <b>92,091</b>      | <b>(14,383)</b>    |
| <b>Cash Provided (Used) by Financing and Other Sources:</b>         |                    |                    |
| <b>Other Cash Provided (Applied):</b>                               |                    |                    |
| Dividends to Shareholder  | (115,000)          | (106,000)          |
| Capital and Surplus Paid In   | 87                 | 81                 |
| Other Cash Provided   | 4,508              | 6,270              |
| <b>Net Cash Used by Financing and Other Sources</b>                 | <b>(110,405)</b>   | <b>(99,649)</b>    |
| <b>Increase (Decrease) in Cash and Short-term Investments</b>       | <b>98,164</b>      | <b>(63,282)</b>    |
| <b>Cash and Short-term Investments at Beginning of Year</b>         | <b>(21,430)</b>    | <b>41,852</b>      |
| <b>Cash and Short-term Investments at End of Year</b>               | <b>\$ 76,734</b>   | <b>\$ (21,430)</b> |

The Notes to the Consolidated Statutory Basis Financial Statements are an integral part of these financial statements.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
 NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
 DECEMBER 31, 2006 and 2005  
 (Dollars in Thousands)

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

Nature of Business

The Consolidated Statutory Basis Financial Statements of Trinity Universal Insurance Company and Subsidiaries and Affiliates (the "Company"), include the accounts of Trinity Universal Insurance Company ("TUIC"), a wholly-owned subsidiary of Unitrin, Inc. ("Unitrin"), and TUIC's subsidiaries (Alpha Property and Casualty Insurance Company ("APCIC"), Charter Indemnity Company ("CIC"), Milwaukee Casualty Insurance Co. ("MCIC"), Milwaukee Safeguard Insurance Company ("MSIC"), Security National Insurance Company ("SNIC"), Trinity Universal Insurance Company of Kansas, Inc. ("TUIK"), Union National Fire Insurance Company ("UNFIC"), Valley Property and Casualty Insurance Company ("VPCIC") and TUIC's affiliates (Unitrin County Mutual Insurance Company ("UCMIC"), Capitol County Mutual Fire Insurance Company ("CCMFIC") and Trinity Lloyds Insurance Company ("TLIC")). All significant intercompany transactions and balances have been eliminated. The Company is a multi-line property and casualty insurance provider to individuals and businesses. It markets its products primarily in suburban and rural communities through independent agents.

Change in Reporting Entity

In 2006, the Consolidated Statutory Basis Financial Statements include additional affiliated companies that were not included in the 2005 consolidated statements: APCIC, CIC, CCMFIC, MCIC, MSIC, UCMIC, UNFIC and VPCIC. These companies previously filed separate stand alone audited statutory basis financial statements. TUIC's investment in APCIC, CIC, MCIC, MSIC, and UNFIC was previously reported in the Consolidated Statutory Basis Financial Statements using the statutory equity method. APCIC, CIC, CCMFIC, MCIC, MSIC, UCMIC, UNFIC and VPCIC are each party to a quota share reinsurance agreement whereby each company cedes 100% of its business, net of unaffiliated reinsurance, to TUIC. Pursuant to laws and regulations of their respective states of domicile and by virtue of the 100% quota share reinsurance agreements, these companies are eligible to file consolidated statutory basis financial statements with TUIC. Accordingly, the Consolidated Statutory Basis Financial Statements for 2005 have been changed to conform to the 2006 presentation for comparability. A reconciliation of previously reported Net Income and Capital and Surplus to restated Net Income and Capital and Surplus in the Consolidated Statutory Basis Financial Statements for 2005 is as follows:

|                         | <u>Net Income</u> | <u>Capital &amp;<br/>Surplus</u> |
|-------------------------|-------------------|----------------------------------|
| 2005 - As Reported      | \$ 100,939        | \$ 1,061,208                     |
| Adjustments to include: |                   |                                  |
| APCIC                   | 778               | -                                |
| CIC                     | 555               | -                                |
| CCMFIC                  | 972               | 10,777                           |
| MCIC                    | 586               | -                                |
| MSIC                    | 590               | -                                |
| UCMIC                   | -                 | 3,068                            |
| UNFIC                   | 363               | -                                |
| VPCIC                   | 363               | -                                |
| 2005 - As Restated      | <u>\$ 105,146</u> | <u>\$ 1,075,053</u>              |

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
 NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
 DECEMBER 31, 2006 and 2005  
 (Dollars in Thousands)

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Basis of Presentation**

The Company prepares its statutory basis financial statements in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance ("TDI"), the Wisconsin Office of the Commissioner of Insurance, the Department of Insurance of the State of Kansas, the Louisiana Department of Insurance, and the Oregon Department of Insurance (the "Departments"). The Departments require insurance companies domiciled in their states to prepare statutory basis financial statements in accordance with the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual ("SSAP") subject to any deviations prescribed or permitted by the state.

Pursuant to accounting practices prescribed by the TDI, investments in surplus notes of other insurers are generally reported as nonadmitted assets. The TDI granted TUIC a permitted practice to report such securities as admitted assets for the year ended December 31, 2005. Such permitted practice is consistent with SSAP No. 41 - "Surplus Notes". TUIC had no investments in surplus notes of other insurers at December 31, 2006.

The Company has adopted Texas Insurance Code chapter 861, section 254(c)(9) which allows the admissibility of office equipment, furniture, machines and labor saving devices, along with the value of other items listed in chapter 861, section 255, to the extent that the total actual cash market values of those assets does not exceed the greater of \$2,000 or 5% of the other admitted assets of the Company. Per SSAP 19, the aforementioned assets would be classified as nonadmitted.

A reconciliation of consolidated statutory basis capital and surplus between SSAP and practices prescribed by the State of Texas at December 31, 2006 and 2005 is shown below:

|  | 2006         | 2005         |
|--|--------------|--------------|
| Consolidated Statutory Basis Capital and Surplus - Texas Basis                         | \$ 1,200,258 | \$ 1,171,573 |
| Differences Due to Limitations on the Admissability of<br>Equipment and Furniture, Net | (1,988)      | (1,111)      |
| Consolidated Statutory Basis Capital and Surplus - SSAP Basis                          | \$ 1,198,270 | \$ 1,170,462 |

Accounting practices and procedures of the NAIC as prescribed by the Departments comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The more significant differences relevant to the Company are as follows:

- a. Certain costs of acquiring insurance business, principally agents compensation and premium taxes are expensed as incurred rather than deferred and amortized to income as premiums are earned.
- b. Investments are stated at values prescribed by the Securities Valuation Office of the NAIC, generally at amortized cost, except for preferred stocks not subject to 100% mandatory sinking fund and common stocks, rather than fair value.
- c. Realized investment gains or losses are reported net of related income taxes in the statutory basis statement of income, whereas under GAAP such gains or losses are reported gross of tax.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 1 - Summary of Significant Accounting Policies (continued)**

- d. Income taxes paid or provided for amounts currently due or recoverable are recorded in income. Deferred income taxes resulting from temporary differences between the statutory basis financial statement carrying amounts of existing assets and liabilities and their respective tax bases are reported as direct adjustments to Unassigned Surplus, subject to admissibility limitations, if any, whereas under GAAP such temporary differences are recorded in income.
- e. Under statutory accounting practices, insurers account for the portion of the risks which have been reinsured with other companies as though they were not risks for which the original insurer is liable. Accordingly, reserves for losses and loss adjustment expenses and unearned premiums are shown net of reinsurance in the consolidated statutory basis financial statements.
- f. Financial statements prepared in accordance with SSAP do not include a statement of comprehensive income, whereas financial statements prepared in accordance with GAAP include a statement of comprehensive income.

**Use of Estimates and Assumptions**

The preparation of the consolidated statutory basis financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

**Significant Accounting Policies**

The significant statutory accounting practices used in the preparation of these consolidated statutory basis financial statements are summarized below:

- a. Investments are carried in accordance with valuations established by the NAIC. Investments in Bonds and Notes are carried at amortized cost. Preferred stocks subject to 100% mandatory sinking fund are carried at cost. Preferred stocks not subject to 100% mandatory sinking fund and common stocks are carried at market value. Market values are based upon values specified in the NAIC valuation of securities manual, which approximate fair value, except for values of mortgage-backed securities that are based upon quoted broker market prices. The difference between cost and carrying value for securities carried at market value is reflected as a net unrealized gain or loss in unassigned surplus. Realized gains and losses on investments are computed on the specific identification method. The Company has no derivative financial instruments.

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other than temporary. Some factors considered in evaluating whether a decline in fair value is other than temporary include: 1) the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value; 2) the duration and extent to which the fair value has been less than cost; and 3) the financial condition and prospects of the issuer. Losses arising from other than temporary declines in fair value are computed on a specific identification method and are reported in the Statutory Basis Statement of Income in the period in which the decline was determined to be other than temporary.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 1 - Summary of Significant Accounting Policies (continued)**

- b. TUIC's investments in its unconsolidated subsidiaries, Valley Group, Inc. ("Valley") and Kemper Enterprise Agency, Inc. are accounted for on a GAAP equity basis. TUIC's investments in its direct, wholly owned insurance subsidiaries, Financial Indemnity Company ("FIC"), Kemper Independence Insurance Company ("KIIC"), Unitrin Auto and Home Insurance Company ("UAHIC"), Unitrin Advantage Insurance Company ("UAIC"), Unitrin Direct Insurance Company ("UDIC"), Unitrin Direct Property & Casualty Company ("UDPC"), Unitrin Preferred Insurance Company ("UPIC"), and United Casualty Insurance Company of America ("UCICA") are accounted for on a statutory equity basis. CCMFIC's investment in its direct, wholly-owned insurance subsidiary, Old Reliable Casualty Company ("ORCC") is accounted for on a statutory equity basis. Changes in the carrying value of the Company's investments in these subsidiaries are recorded directly to Unassigned Surplus and are reflected in Net Unrealized Capital Gains.

Summarized statutory basis financial information for TUIC's unconsolidated subsidiaries (FIC, KIIC, UAHIC, UAIC, UDIC, UDPC, UPIC, UCICA and Valley's insurance subsidiary Valley Insurance Company ("VIC")) as of and for the years ended December 31, 2006 and 2005 is as follows:

|                     | <u>2006</u> | <u>2005</u> |
|---------------------|-------------|-------------|
| Admitted Assets     | \$ 574,605  | \$ 357,600  |
| Capital and Surplus | \$ 153,825  | \$ 142,925  |
| Net Income          | \$ 18,169   | \$ 12,670   |

Summarized statutory basis financial information for ORCC as of and for the years ended December 31, 2006 and 2005 is as follows:

|                     | <u>2006</u> | <u>2005</u> |
|---------------------|-------------|-------------|
| Admitted Assets     | \$ 11,019   | \$ 10,486   |
| Capital and Surplus | \$ 7,940    | \$ 7,490    |
| Net Income          | \$ 340      | \$ 355      |

- c. TUIC has nonadmitted \$15,667 and \$21,819 of its carrying value of Intermec, Inc. at December 31, 2006 and 2005, respectively, in accordance with the purposes and procedures of the SVO Part 8, section 3(b)(i)(B)(2). Agent Balances Over 90 Days are designated as "Nonadmitted Assets" and charged to Unassigned Surplus. The nonadmitted amount of Agent Balances Over 90 Days was \$1,876 and \$5,054 at December 31, 2006 and 2005, respectively. The nonadmitted amount of other assets, principally electronic data equipment and software and prepaid expenses, was \$30,491 and \$31,035 at December 31, 2006 and 2005, respectively;

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 1 - Summary of Significant Accounting Policies (continued)**

- d. Reserves for losses and loss adjustment expenses on property and liability coverage represent the estimated indemnity cost and loss expense necessary to cover the ultimate net cost of investigating and settling all losses incurred and unpaid. Such estimates are based on individual case estimates for reported claims and estimates for incurred but not reported losses based on past experience. These estimates are adjusted in the aggregate for ultimate loss expectations based on historical experience patterns and current economic trends with any change in probable ultimate liabilities being reflected in current results. Reserves for losses and loss adjustment expenses are carried net of reinsurance and salvage and subrogation;
- e. Premium revenue is recognized ratably over the contract periods to which the premium revenue relates;
- f. Costs associated with the acquisition of new business are expensed when incurred;
- g. Federal income taxes paid or provided for amounts currently due or recoverable are recorded in income. Deferred income taxes resulting from temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases are reported as direct adjustments to Unassigned Surplus, subject to limitations;
- h. Affiliates charged the Company for services at rates that approximate cost.

**Note 2 - Investments**

The amortized cost and market value of the Company's investments in Bonds and Notes at December 31, 2006 were:

|   | Amortized<br>Cost   | Gross Unrealized  |                    | Market<br>Value     |
|---|---------------------|-------------------|--------------------|---------------------|
|   |                     | Gains             | Losses             |                     |
| U.S. Government<br>States, Municipalities<br>and Political Subdivisions | \$ 153,123          | \$ 1,605          | \$ (6,490)         | \$ 148,238          |
| Corporate Securities  | 1,100,871           | 41,891            | (547)              | 1,142,215           |
| Mortgage-backed Securities  | 575                 | 11                | -                  | 586                 |
| Total Bonds and Notes   | 9,548               | 49                | (184)              | 9,413               |
| Unaffiliated Preferred Stock  | 1,264,117           | 43,556            | (7,221)            | 1,300,452           |
| Unaffiliated Common Stock   | 54,576              | 3,675             | (201)              | 58,050              |
| Total   | 699,382             | 454,185           | (4,272)            | 1,149,295           |
|   | <u>\$ 2,018,075</u> | <u>\$ 501,416</u> | <u>\$ (11,694)</u> | <u>\$ 2,507,797</u> |

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 and 2005**  
(Dollars in Thousands)

**Note 2 - Investments (continued)**

The amortized cost and market value of the Company's investments in Bonds and Notes and Unaffiliated Preferred and Common Stock at December 31, 2005 were:

|   | Amortized<br>Cost   | Gross Unrealized  |                    | Market<br>Value     |
|---|---------------------|-------------------|--------------------|---------------------|
|   |                     | Gains             | Losses             |                     |
| U.S. Government<br>States, Municipalities<br>and Political Subdivisions | \$ 178,072          | \$ 2,292          | \$ (5,623)         | \$ 174,741          |
| Corporate Securities  | 1,115,402           | 44,471            | (762)              | 1,159,111           |
| Mortgage-backed Securities  | 184,473             | 7,637             | (718)              | 191,392             |
|   | 10,808              | 107               | (177)              | 10,738              |
| <b>Total Bonds and Notes</b>  | <b>1,488,755</b>    | <b>54,507</b>     | <b>(7,280)</b>     | <b>1,535,982</b>    |
| Unaffiliated Preferred Stock  | 63,099              | 3,731             | (260)              | 66,570              |
| Unaffiliated Common Stock   | 575,133             | 478,185           | (3,285)            | 1,050,033           |
| <b>Total</b>  | <b>\$ 2,126,987</b> | <b>\$ 536,423</b> | <b>\$ (10,825)</b> | <b>\$ 2,652,585</b> |

The amortized cost and market value of the Company's investments in Bonds and Notes at December 31, 2006 by contractual maturity were:

|   | Amortized<br>Cost   | Market<br>Value     |
|---|---------------------|---------------------|
| Due in One Year or Less                     | \$ 6,790            | \$ 6,785            |
| Due After One Year to 5 Years               | 59,163              | 61,567              |
| Due After 5 Years to 10 Years               | 77,675              | 81,374              |
| Due After 10 Years                          | 1,110,941           | 1,141,313           |
| Mortgage-backed Securities                  | 9,548               | 9,413               |
| <b>Total Investments in Bonds and Notes</b> | <b>\$ 1,264,117</b> | <b>\$ 1,300,452</b> |

The expected maturities may differ from the contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties.

The amortized cost of bonds and notes on deposit with various insurance regulatory agencies, as required by law, was \$25,951 and \$25,770 at December 31, 2006 and 2005, respectively.

The Company's proceeds and realized gains and losses on sales of Bonds and Notes are summarized as follows:

|                               | 2006       | 2005      |
|-------------------------------|------------|-----------|
| Gross Proceeds                | \$ 281,100 | \$ 81,406 |
| Gross Realized Capital Gains  | \$ 6,368   | \$ 313    |
| Gross Realized Capital Losses | \$ 4,898   | \$ 914    |

Realized capital losses resulting from other than temporary declines in fair value of investments were \$2,016 and \$2,386 for the years ended December 31, 2006 and 2005, respectively.

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 and 2005**  
(Dollars in Thousands)

**Note 2 - Investments (continued)**

An aging of gross unrealized capital losses on the Company's investments in bonds and notes and unaffiliated preferred and common stocks at December 31, 2006 is presented below:

|   | <u>Less than 12 Months</u> |                        | <u>12 Months or Longer</u> |                        | <u>Total</u>        |                        |
|---|----------------------------|------------------------|----------------------------|------------------------|---------------------|------------------------|
|   | <u>Market Value</u>        | <u>Unrealized Loss</u> | <u>Market Value</u>        | <u>Unrealized Loss</u> | <u>Market Value</u> | <u>Unrealized Loss</u> |
| <b>Bonds and Notes:</b>                                 |                            |                        |                            |                        |                     |                        |
| U.S. Government and Government Agencies and Authorities | \$ 5,492                   | \$ (17)                | \$ 122,769                 | \$ (6,473)             | \$ 128,261          | \$ (6,490)             |
| States, Municipalities and Political Subdivisions       | 55,889                     | (345)                  | 18,703                     | (202)                  | 74,592              | (547)                  |
| Mortgage-backed Securities                              | 116                        | (1)                    | 6,532                      | (183)                  | 6,648               | (184)                  |
| <b>Total Bonds and Notes</b>                            | <b>61,497</b>              | <b>(363)</b>           | <b>148,004</b>             | <b>(6,858)</b>         | <b>209,501</b>      | <b>(7,221)</b>         |
| Unaffiliated Preferred Stock                            | 5,166                      | (88)                   | 4,395                      | (113)                  | 9,561               | (201)                  |
| Unaffiliated Common Stock                               | 29,500                     | (2,663)                | 6,608                      | (1,609)                | 36,108              | (4,272)                |
| <b>Total</b>  | <b>\$ 96,163</b>           | <b>\$ (3,114)</b>      | <b>\$ 159,007</b>          | <b>\$ (8,580)</b>      | <b>\$ 255,170</b>   | <b>\$ (11,694)</b>     |

An aging of gross unrealized capital losses on the Company's investments in bonds and notes and unaffiliated preferred and common stocks at December 31, 2005 is presented below:

|   | <u>Less than 12 Months</u> |                        | <u>12 Months or Longer</u> |                        | <u>Total</u>        |                        |
|---|----------------------------|------------------------|----------------------------|------------------------|---------------------|------------------------|
|   | <u>Market Value</u>        | <u>Unrealized Loss</u> | <u>Market Value</u>        | <u>Unrealized Loss</u> | <u>Market Value</u> | <u>Unrealized Loss</u> |
| <b>Bonds and Notes:</b>                                 |                            |                        |                            |                        |                     |                        |
| U.S. Government and Government Agencies and Authorities | \$ 29,907                  | \$ (838)               | \$ 119,013                 | \$ (4,785)             | \$ 148,920          | \$ (5,623)             |
| States, Municipalities and Political Subdivisions       | 49,746                     | (369)                  | 16,526                     | (393)                  | 66,272              | (762)                  |
| Corporate Securities                                    | 55,935                     | (718)                  | -                          | -                      | 55,935              | (718)                  |
| Mortgage-backed Securities                              | 7,514                      | (171)                  | 234                        | (6)                    | 7,748               | (177)                  |
| <b>Total Bonds and Notes</b>                            | <b>143,102</b>             | <b>(2,096)</b>         | <b>135,773</b>             | <b>(5,184)</b>         | <b>278,875</b>      | <b>(7,280)</b>         |
| Unaffiliated Preferred Stock                            | 6,428                      | (149)                  | 6,435                      | (111)                  | 12,863              | (260)                  |
| Unaffiliated Common Stock                               | 161,169                    | (3,261)                | 164                        | (24)                   | 161,333             | (3,285)                |
| <b>Total</b>  | <b>\$ 310,699</b>          | <b>\$ (5,506)</b>      | <b>\$ 142,372</b>          | <b>\$ (5,319)</b>      | <b>\$ 453,071</b>   | <b>\$ (10,825)</b>     |

Unrealized losses on investments at December 31, 2006 and 2005 are primarily concentrated in investments in highly rated bonds and notes, which the Company expects to fully recover. Gross unrealized capital gains – admitted on preferred and common stocks of unaffiliated companies were \$457,859 and \$481,917 at December 31, 2006 and 2005, respectively.

TUIC received \$8,276 and \$3,298 in dividends in 2006 and 2005, respectively, from its wholly-owned subsidiaries, FIC and UCICA. These dividends are included in Investment Income in the Consolidated Statutory Basis Statements of Income.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 2 - Investments (continued)**

Cash and Short-term Investments included investments in repurchase agreements of \$56,000 and \$34,200 at December 31, 2006 and 2005, respectively. The Company invests, from time to time, in repurchase agreements with Nesbitt Burns and The Northern Trust for which the Company receives collateral. The Company does not sell or re-pledge the collateral it receives. The Company generally maintains collateral at least equal to 100% of the principal value of the repurchase agreement. Such collateral is generally in the form of U.S. Government and Agency bonds. The Company has not pledged any of its assets as collateral. The carrying value of the repurchase agreements and the fair value of the collateral received at December 31, 2006 and 2005 are as follows:

|                    | 2006                           |                             | 2005                           |                             |
|--------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
|                    | Carrying Value<br>of Agreement | Fair Value<br>of Collateral | Carrying Value<br>of Agreement | Fair Value<br>of Collateral |
| The Northern Trust | \$ -                           | \$ -                        | \$ 34,200                      | \$ 34,191                   |
| Nesbitt Burns      | 56,000                         | 56,157                      | -                              | -                           |

**Note 3 – EDP Equipment, Furniture and Fixtures**

A. EDP Equipment:

At December 31, 2006, the Company held EDP Equipment in the amount of \$14,238, net of accumulated depreciation of \$26,998. \$7,470 of these assets were nonadmitted based on certain limits defined in SSAP No. 16 – *Electronic Data Processing Equipment and Software*. The Company recorded \$7,207 of depreciation expense related to EDP Equipment in 2006.

At December 31, 2005, the Company held EDP Equipment in the amount of \$18,351, net of accumulated depreciation of \$19,649. \$9,594 of these assets were nonadmitted based on certain limits defined in SSAP No. 16 – *Electronic Data Processing Equipment and Software*. The Company recorded \$6,911 of depreciation expense related to EDP Equipment in 2005.

Asset balances and depreciation methods by major classes of EDP Equipment as of December 31, 2006 and 2005 are as follows:

| Asset Class                   | 2006            | 2005            | Depreciation Method |
|-------------------------------|-----------------|-----------------|---------------------|
| Computer hardware 3 YR        | \$ 1,050        | \$ 1,450        | Straight line       |
| Computer hardware 5 YR        | 1,000           | 533             | MACRS H             |
| Operating system software     | 9,643           | 13,512          | Straight line       |
| Non-operating system software | 2,545           | 2,856           | Straight line       |
| Total EDP Equipment           | <u>\$14,238</u> | <u>\$18,351</u> |                     |

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 3 – EDP Equipment, Furniture and Fixtures (continued)**

**B. Furniture and Equipment:**

The Company recorded depreciation expense of \$438 and \$313 related to Furniture and Equipment for the years ended December 31, 2006 and 2005, respectively. Depreciation methods for major classes of Furniture and Equipment as of December 31, 2006 are as follows:

| Asset Class            | Depreciation Method     |
|------------------------|-------------------------|
| Furniture & Fixtures   | Straight line - 10 year |
| Furniture & Fixtures   | MACRS H - 7 year        |
| Machinery & Equipment  | Straight line - 5 year  |
| Small Equipment        | MACRS H - 5 year        |
| Leasehold Improvements | Straight line - 10 year |

**Note 4 - Insurance Reserves**

Loss and loss adjustment expense reserve activity for the years ended December 31, 2006 and 2005 was:

|  | 2006                | 2005                |
|--|---------------------|---------------------|
| Liability at the Beginning of Year, Net of Reinsurance | \$ 1,261,908        | \$ 1,227,145        |
| Incurred related to:                                   |                     |                     |
| Current Year   | 1,272,581           | 1,313,089           |
| Prior Years  | (91,922)            | (87,368)            |
| Total Incurred   | <u>1,180,659</u>    | <u>1,225,721</u>    |
| Paid related to:                                       |                     |                     |
| Current Year   | 725,322             | 723,658             |
| Prior Years  | 489,597             | 467,300             |
| Total Paid   | <u>1,214,919</u>    | <u>1,190,958</u>    |
| Liability at the End of Year, Net of Reinsurance       | <u>\$ 1,227,648</u> | <u>\$ 1,261,908</u> |

The Company reduced its loss and LAE reserves by \$91,922 and \$87,368 in 2006 and 2005 respectively, to record favorable development of losses and LAE from prior accident years. The reserve reductions were primarily due to the emergence of more favorable loss trends than expected, partially due to improvements in claims handling processes. Although the Company's actuaries were aware of, and gave consideration to, the changes in these claims handling processes, it takes several years to ascertain whether such changes in claims handling will ultimately result in lower ultimate paid losses and LAE. Accordingly, the improvements have emerged and have been recognized over several quarterly periods as the Company's actuaries have become more convinced that lower losses and LAE have in fact been realized. However, the Company cannot make any assurances that all such improvements and effects have fully emerged or will continue to emerge.

Reinsurance Recoverables for Unpaid Losses were \$22,966 and \$48,546 at December 31, 2006 and 2005, respectively. Anticipated salvage and subrogation was \$21,556 and \$17,497 at December 31, 2006 and 2005, respectively.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 4 - Insurance Reserves (continued)**

Reserves for asbestos claims and environmental claims are estimated by establishing full case basis reserves for known losses and for incurred but not reported losses based on previous experience. The Company's exposure to asbestos and environmental related losses arises from the sales of general liability insurance.

Asbestos-related and environmental reserve activity for the years ended December 31, 2006 and 2005 is as follows:

|   | <u>Asbestos Loss Data</u> |                  | <u>Environmental Loss Data</u> |                 |
|---|---------------------------|------------------|--------------------------------|-----------------|
|   | <u>2006</u>               | <u>2005</u>      | <u>2006</u>                    | <u>2005</u>     |
| <u>Direct Basis:</u>                                      |                           |                  |                                |                 |
| Reserves at Beginning of Year                             | \$ 6,405                  | \$ 7,393         | \$ 3,256                       | \$ 4,513        |
| Incurred Losses and Loss<br>Adjustment Expenses           | (252)                     | (405)            | 436                            | (1,012)         |
| Claim Payments for Losses<br>and Loss Adjustment Expenses | (220)                     | (583)            | (496)                          | (245)           |
| Reserves at End of Year                                   | <u>\$ 5,933</u>           | <u>\$ 6,405</u>  | <u>\$ 3,196</u>                | <u>\$ 3,256</u> |
| <u>Assumed Basis:</u>                                     |                           |                  |                                |                 |
| Reserves at Beginning of Year                             | \$ 7,082                  | \$ 6,089         | \$ 1,728                       | \$ 1,804        |
| Incurred Losses and Loss<br>Adjustment Expenses           | 483                       | 1,286            | 336                            | 143             |
| Claim Payments for Losses<br>and Loss Adjustment Expenses | (565)                     | (293)            | (186)                          | (219)           |
| Reserves at End of Year                                   | <u>\$ 7,000</u>           | <u>\$ 7,082</u>  | <u>\$ 1,878</u>                | <u>\$ 1,728</u> |
| <u>Net of Ceded Reinsurance Basis:</u>                    |                           |                  |                                |                 |
| Reserves at Beginning of Year                             | \$ 13,488                 | \$ 13,483        | \$ 4,777                       | \$ 6,316        |
| Incurred Losses and Loss<br>Adjustment Expenses           | 231                       | 881              | 716                            | (1,079)         |
| Claim Payments for Losses<br>and Loss Adjustment Expenses | (786)                     | (876)            | (469)                          | (460)           |
| Reserves at End of Year                                   | <u>\$ 12,933</u>          | <u>\$ 13,488</u> | <u>\$ 5,024</u>                | <u>\$ 4,777</u> |

**Note 5 - Managerial Contract**

UCMIC is operated by NCM Management Corporation ("NCMMC"), which assumes responsibility for managing and conducting the business. As consideration for these services, NCMMC receives a management fee based upon the net income of UCMIC, after all operating expenses have been paid and all liabilities and changes in surplus have been provided for, in such amount as determined by the Board of Directors. There was no management fee expense for the years ended December 31, 2006 and 2005.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 6 - Capital and Surplus**

Various state insurance laws restrict the amount that insurance companies may transfer in the form of dividends, loans, or advances without prior approval of regulatory authorities. TUIC paid \$115,000 in cash dividends to its shareholder in 2006. TUIC paid \$106,000 in dividends to its shareholder in 2005 of which \$56,000 was in cash and \$50,000 was in shares of Northrop Grumman Corporation ("Northrop") common stock. In 2007, TUIC would be able to pay \$161,900 to its shareholder without prior written approval of regulatory authorities.

UCMIC is required to maintain a minimum statutory surplus of \$2,000. The minimum surplus of UCMIC is required to be kept principally in cash or invested in obligations of the United States Government. NCMMC owns a surplus debenture issued by UCMIC. The debenture bears interest at prime plus 1%, not to exceed 10% per annum and matures July 1, 2010. Interest is payable semi-annually, subject to approval by the TDI. Interest expense was \$269 and \$177 for the years ended December 31, 2006 and 2005, respectively. Pursuant to an agreement with the TDI, NCMMC has agreed to increase the surplus debenture and UCMIC's statutory surplus annually, up to \$3,500, in an amount equal to UCMIC's prior year net investment income earned. In 2006 and 2005, the surplus debenture was increased \$87 and \$81, respectively, in accordance with the terms of the agreement. Principal may be paid out of surplus funds exceeding \$3,500, subject to approval of the TDI. The principal balance of the surplus debenture was \$2,936 and \$2,849 at December 31, 2006 and 2005, respectively.

**Note 7 - Reinsurance**

Unaffiliated Reinsurance

The Company utilizes reinsurance arrangements to limit its maximum loss, provide greater diversification of risk, and minimize exposure on larger risks. The ceding of insurance does not relieve the Company of its legal liability to its policyholders. However, in accordance with statutory accounting practices, reserves for losses, loss adjustment expenses and unearned premium are reported net of reinsurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the reserves for losses, loss adjustment expenses and unearned premium. Reinsurance premiums assumed from and ceded to unaffiliated companies were \$429 and \$22,009, respectively, in 2006 and \$685 and \$19,223, respectively, in 2005. Reinsurance recoverable on paid and unpaid losses and loss adjustment expenses were \$30,687 and \$63,959 at December 31, 2006 and 2005, respectively.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 7 - Reinsurance (continued)**

Affiliated Reinsurance

In addition to the 100% quota share agreements between TUIC and each of its consolidated subsidiaries and affiliates (See Note 1), TUIC is party to various quota share agreements whereby TUIC assumes certain existing, new and renewal business, net of unaffiliated reinsurance, with the following unconsolidated subsidiaries and affiliates at the percentages indicated. Written premiums assumed under these agreements for the years ended December 31, 2006 and 2005 are also indicated.

|                             | Quota Share<br>Percentage | Written Premiums Assumed |                     |
|-----------------------------|---------------------------|--------------------------|---------------------|
|                             |                           | 2006                     | 2005                |
| FIC                         | 90%                       | \$ 233,719               | \$ 261,484          |
| KIIC                        | 90%                       | 216,411                  | 205,761             |
| Milwaukee Insurance Company | 95%                       | 35,900                   | 41,492              |
| ORCC                        | 100%                      | 11,737                   | -                   |
| UCICA                       | 90%                       | 29,101                   | 30,322              |
| UAIC                        | 95%                       | 8,071                    | 6,243               |
| UAHIC                       | 90%                       | 337,374                  | 302,647             |
| UDIC                        | 90%                       | 48,133                   | 57,245              |
| UDPCC                       | 90%                       | 116,110                  | 141,223             |
| UPIC                        | 90%                       | 95,439                   | 119,016             |
| VIC                         | 90%                       | 19,743                   | 22,978              |
| Total                       |                           | <u>\$ 1,151,738</u>      | <u>\$ 1,188,411</u> |

Effective January 1, 2006, TUIC and ORCC entered into a quota share reinsurance agreement, whereby TUIC assumes and ORCC cedes 100% of the business written by ORCC. Prior to January 1, 2006, TUIC did not assume business written by ORCC.

The effects of reinsurance on written premiums are as follows:

| Year Ended         | Direct            | Assumed             | Ceded            | Net                 |
|--------------------|-------------------|---------------------|------------------|---------------------|
| December 31, 2006: |                   |                     |                  |                     |
| Affiliated         | \$ 645,655        | \$ 1,151,738        | \$ -             | \$ 1,797,393        |
| Unaffiliated       | -                 | 429                 | 22,009           | (21,580)            |
| Total              | <u>\$ 645,655</u> | <u>\$ 1,152,167</u> | <u>\$ 22,009</u> | <u>\$ 1,775,813</u> |
| December 31, 2005: |                   |                     |                  |                     |
| Affiliated         | \$ 639,040        | \$ 1,188,411        | \$ -             | \$ 1,827,451        |
| Unaffiliated       | -                 | 686                 | 19,223           | (18,537)            |
| Total              | <u>\$ 639,040</u> | <u>\$ 1,189,097</u> | <u>\$ 19,223</u> | <u>\$ 1,808,914</u> |

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
 NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
 DECEMBER 31, 2006 and 2005  
 (Dollars in Thousands)

**Note 7 - Reinsurance (continued)**

The effects of ceded reinsurance on loss and loss adjustment expense reserves and unearned premium reserves at December 31, 2006 and 2005 are as follows:

|   | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| Reserve for Loss and Loss Adjustment Expenses | \$ 23,225   | \$ 50,828   |
| Unearned Premiums                             | \$ 4,007    | \$ 2,564    |

**Note 8 - Federal Income Taxes**

The components of the net deferred tax asset (liability) in the Company's Assets, Liabilities, Surplus and Other Funds at December 31, are as follows:

|  | <u>2006</u>         | <u>2005</u>         |
|--|---------------------|---------------------|
| Total of All Deferred Tax Assets (Admitted and Nonadmitted)                            | \$ 130,079          | \$ 139,098          |
| Total of All Deferred Tax Liabilities  | <u>(258,770)</u>    | <u>(265,700)</u>    |
| Net Admitted and Nonadmitted Deferred Tax Liability                                    | (128,691)           | (126,602)           |
| Total Deferred Tax Assets Nonadmitted as a Result of the<br>Application of SSAP No. 10 | <u>(11,085)</u>     | <u>(11,188)</u>     |
| Net Admitted Deferred Tax Liability  | <u>\$ (139,776)</u> | <u>\$ (137,790)</u> |
| <br>(Increase) Decrease in Total Deferred Tax Assets Nonadmitted                       | <br><u>\$ 103</u>   | <br><u>\$ (390)</u> |

The Company does not have any deferred tax liabilities that are not recognized.

The provision for incurred taxes on earnings for the years ended December 31, 2006 and 2005 are as follows:

|   | <u>2006</u>      | <u>2005</u>      |
|---|------------------|------------------|
| Federal Income Tax Expense              | \$ 39,330        | \$ 26,804        |
| Federal Income Tax on Net Capital Gains | <u>10,167</u>    | <u>24,303</u>    |
| Federal Income Taxes Incurred           | <u>\$ 49,497</u> | <u>\$ 51,107</u> |

The Company reported no foreign income taxes in 2006 and 2005.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 8 - Federal Income Taxes (continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2006 and 2005 are as follows:

|   | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| <u>Deferred Tax Assets:</u>                                     |                     |                     |
| Discounting of Unpaid Losses and Loss Adjustment Expenses       | \$ 39,777           | \$ 39,574           |
| Unearned and Advance Premiums                                   | 49,121              | 51,723              |
| Capitalized Commissions   | 11,920              | 13,187              |
| Net Operating Loss  | 10,579              | 9,997               |
| Nonadmitted Assets  | 13,038              | 17,657              |
| Other   | 5,644               | 6,960               |
| Total Deferred Tax Assets (Admitted and Nonadmitted)            | <u>130,079</u>      | <u>139,098</u>      |
| Total Deferred Tax Assets Nonadmitted as a Result of the        |                     |                     |
| Application of SSAP No. 10                                      | <u>(11,085)</u>     | <u>(11,188)</u>     |
| Admitted Deferred Tax Assets                                    | <u>118,994</u>      | <u>127,910</u>      |
| <u>Deferred Tax Liabilities:</u>                                |                     |                     |
| Preferred and Common Stocks, excluding Unrealized Capital Gains | 88,681              | 92,161              |
| Unrealized Capital Gains  | 165,548             | 170,532             |
| Other   | 4,541               | 3,007               |
| Total Deferred Tax Liabilities                                  | <u>258,770</u>      | <u>265,700</u>      |
| Net Admitted and Nonadmitted Deferred Tax Liability             | <u>\$ (139,776)</u> | <u>\$ (137,790)</u> |

The change in net deferred income taxes is comprised of the following:

|   | <u>Dec. 31,<br/>2006</u> | <u>Dec. 31,<br/>2005</u> | <u>Change</u>     |
|---|--------------------------|--------------------------|-------------------|
| Total Deferred Tax Assets (Admitted and Nonadmitted)              | \$ 130,079               | \$ 139,098               | \$ (9,019)        |
| Total Deferred Tax Liabilities                                    | 258,770                  | 265,700                  | (6,930)           |
| Net Admitted and Nonadmitted Deferred Tax Liability               | <u>\$ (128,691)</u>      | <u>\$ (126,602)</u>      | (2,089)           |
| Tax Effect of Unrealized Capital Gains and Losses                 |                          |                          | (11,554)          |
| Correction of Prior Year Deferred Tax on Unrealized Capital Gains |                          |                          | 6,569             |
| Change in Net Deferred Income Tax                                 |                          |                          | <u>\$ (7,074)</u> |

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 8 - Federal Income Taxes (continued)**

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes, including income from realized capital gains and losses before income taxes of \$24,041 and \$22,106 in 2006 and 2005, respectively. The significant items causing this difference for the years ended December 31, 2006 and 2005 are as follows:

|   | <u>2006</u>      | <u>2005</u>      |
|---|------------------|------------------|
| Tax Provision at Statutory Rate                                   | \$ 75,922        | \$ 54,803        |
| Tax Exempt Income Deduction                                       | (15,242)         | (15,358)         |
| Dividends Received Deduction - Unaffiliated                       | (3,796)          | (2,495)          |
| Dividends Received from Affiliates                                | (5,083)          | (3,565)          |
| Other   | 151              | (1,919)          |
| Total Statutory Income Taxes                                      | <u>\$ 51,952</u> | <u>\$ 31,466</u> |
| Federal Income Taxes Incurred                                     | \$ 49,497        | \$ 51,107        |
| Change in Net Deferred Income Tax                                 | 7,074            | (25,530)         |
| Less: Deferred Tax Effect on Nonadmitted<br>Assets included above | (4,619)          | 5,889            |
| Total Statutory Income Taxes                                      | <u>\$ 51,952</u> | <u>\$ 31,466</u> |

As of December 31, 2006, certain affiliates included in this report had the following net operating loss carryforwards which are available to offset their own future taxable income subject to certain limitations:

| <u>Affiliate</u>                       | <u>Amount</u>    | <u>Expiration</u> |
|--|------------------|-------------------|
| APCIC                                  | \$ 709           | 2010-2022         |
| CIC                                    | 18,990           | 2019-2026         |
| MCIC                                   | 603              | 2012              |
| MSIC                                   | 108              | 2012              |
| UCMIC                                  | 511              | 2007-2024         |
| VPCIC                                  | 8,944            | 2019-2026         |
| Total Net Operating Loss Carryforwards | <u>\$ 29,865</u> |                   |

The amount of income taxes incurred that are available for recoupment in the event of future net losses are \$54,700 and \$52,850 for 2006 and 2005, respectively.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 8 - Federal Income Taxes (continued)**

All companies included in this report, with the exception of CCMFIC and UCMIC, are included in a consolidated federal income tax return with the following companies:

|  |  |
|--|--|
| Charter General Agency, Inc.                             | Southern States Finance Corporation          |
| Charter Group, Inc.                                      | Southern States General Agency               |
| Clayton Reinsurance Bermuda                              | Summerset Marketing Company                  |
| Clayton Reinsurance Bermuda                              | Trinity Lloyd's Corporation                  |
| Family Security Funerals Company                         | Union National Life Insurance Company        |
| Financial Indemnity Company                              | United Casualty Insurance Company of America |
| Fireside Bank  | United Insurance Company of America          |
| Fireside Securities Corporation                          | Unitrin Advantage Insurance Company          |
| Kemper Auto and Home Group, Inc.                         | Unitrin Auto and Home Insurance Company      |
| Kemper Enterprise Agency, Inc.                           | Unitrin Data Systems, Inc.                   |
| Kemper Independence Insurance Company                    | Unitrin Direct General Agency, Inc.          |
| National Association of Medicare<br>Members, Inc.        | Unitrin Direct Insurance Company             |
| National Association of Self-Employed<br>Business Owners | Unitrin Direct Property & Casualty           |
| NCM Management Corporation                               | Unitrin Internal Audit Services, Inc.        |
| One East Wacker Corporation                              | Unitrin Preferred Insurance Company          |
| The Reliable Life Insurance Company                      | Unitrin Services Company                     |
| The Reliable Life Insurance Company of Texas             | Unitrin, Inc.                                |
| Reserve National Insurance Company                       | Valley Group, Inc.                           |
| Rural American Consumer                                  | Valley Insurance Company                     |
|  | Valley Pacific, Inc.                         |

CCMFIC is included in a consolidated federal income tax return with ORCC. UCMIC files its federal income tax return on a separate company basis.

The Company is subject to Federal income taxation as a property and casualty insurance company. All companies included in this report, with the exception of CCMFIC and UCMIC, are parties to a written tax sharing agreement with Unitrin, Inc. and its subsidiaries. CCMFIC is party to a written tax sharing agreement with ORCC. These tax sharing agreements state that each participant in the agreement shall be allocated tax as if they filed a separate company return.

**Note 9 - Retirement Plans**

Unitrin sponsors a defined benefit pension plan covering substantially all of the Company's employees. Benefits are based on the employee's years of service and compensation during employment.

Unitrin's annual contributions are made at an amount within the funding limits of the Employee Retirement Income Security Act of 1974, as amended. Pension expense of \$2,909 and \$6,579 was allocated to the Company in 2006 and 2005, respectively.

Unitrin also sponsors several defined contribution benefit plans covering most of the Company's employees. TUIC incurred expense of \$973 and \$1,068 for contributions in 2006 and 2005, respectively.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
 NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
 DECEMBER 31, 2006 and 2005  
 (Dollars in Thousands)

**Note 10 - Related Party Transactions**

The Company owns approximately 20.2% of the outstanding shares of Intermec (previously UNOVA, Inc.), and accordingly, Intermec is considered an affiliate under SSAP No. 25. In addition, in 2005, the Company owned certain notes issued by UNOVA, Inc. that matured on March 15, 2005. The Company reported investment income earned of \$80 from the notes in 2005.

Effective January 1, 2006, TUIC and ORCC a wholly-owned subsidiary of CCMFIC, entered into a quota share reinsurance agreement whereby ORCC cedes and TUIC assumes 100% of the risks arising under all insurance policies written by ORCC prior to the effective date, and all new insurance policies written by ORCC on and after the effective date, net of unaffiliated reinsurance.

The Company and Unitrin Services Company ("USC"), a wholly-owned subsidiary of Unitrin, are parties to a general services agreement whereby USC provides certain management services, group medical insurance and other insurance to the Company. Additionally, the Company and USC are parties to a data processing agreement whereby USC provides certain data processing services to the Company. The Company and several of its affiliates and subsidiaries are parties to administrative services agreements whereby the Company provides certain management services to the affiliates and subsidiaries. Services between the Company and its affiliates and subsidiaries are charged at rates that approximate cost. The Company incurred expenses of \$94,818 and \$80,220 under the agreements in 2006 and 2005, respectively.

During 2006, TUIC transferred certain securities to or from various affiliates, in arm's length transactions based on quoted market prices as defined in paragraph 10 of SSAP 25, *Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties*. Details of these transfers are listed below:

| Date     | Affiliate                             | Transfer type       | Securities transferred   | Quoted Market Price on date of Transfer | Pre-tax Gain Recorded on Sale |
|----------|---------------------------------------|---------------------|--------------------------|---|-------------------------------|
| 06/15/06 | Union National Life Insurance Company | Purchase            | Publicly traded equities | \$ 29,960                               | \$ -                          |
| 09/01/06 | United Insurance Company of America   | Sale                | Industrial & Misc. Bonds | 119,869                                 | 3,440                         |
| 12/01/06 | FIC                                   | Purchase            | Municipal Bonds          | 1,920                                   |                               |
| 12/19/06 | UCICA                                 | Sale                | Municipal Bonds          | 2,161                                   | 63                            |
| 12/22/06 | UPIC                                  | Purchase            | Municipal Bonds          | 3,355                                   |                               |
| 12/22/06 | UAHIC                                 | Purchase            | Municipal Bonds          | 21,368                                  |                               |
| 12/28/06 | FIC                                   | Subsidiary Dividend | Municipal Bonds          | 7,112                                   |                               |

On December 22, 2005, the Company purchased certain publicly traded equity securities from United Insurance Company of America, an affiliate, in an arm's length transaction based on quoted market prices as defined in paragraph 10 of SSAP 25, *Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties*. The total purchase price of these securities was \$187,468.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 11 – Commitments and Contingencies**

TUIC has purchased interests in Limited Liability Companies and Limited Liability Partnerships to which TUIC is obligated to make additional capital contributions as follows:

|  | <u>Original<br/>Investment</u> | <u>Future<br/>Investment</u> | <u>Total<br/>Commitment</u> |
|--|--------------------------------|------------------------------|-----------------------------|
| Black Diamond Capital Partners I       | \$ -                           | \$ 5,000,000                 | \$ 5,000,000                |
| BNY Mezzanine Partners                 | -                              | 20,000,000                   | 20,000,000                  |
| Goldman Sachs Mezzanine Partners 2006  | 2,699,988                      | 7,300,012                    | 10,000,000                  |
| Goldman Sachs Vintage Fund IV          | -                              | 85,000,000                   | 85,000,000                  |
| Tennenbaum Opportunities Fund V        | 10,000,000                     | 40,000,000                   | 50,000,000                  |
| Ziegler Healthcare Real Estate Fund II | 2,523,750                      | 2,320,000                    | 4,843,750                   |
| Ziegler Meditech Equity Partners       | 2,400,000                      | 7,600,000                    | 10,000,000                  |

The Company and its subsidiaries and affiliates are involved in various legal proceedings that have arisen in the ordinary course of their businesses. The Company and its subsidiaries and affiliates believe that resolution of its pending legal proceedings will not have a material adverse effect on the Company's financial position, but could have a material adverse effect on the Company's financial results for a given period.

**Note 12 – Leases**

TUIC leases office facilities and equipment under various noncancelable operating lease agreements that have various expiration dates. These leases do not contain any contingent rental commitments or dividend restrictions. Rental expense for 2006 and 2005 was \$12,415 and \$12,337 respectively.

At December 31, 2006, the minimum aggregate rental commitments are as follows:

| <u>Year</u>                     | <u>Amount</u>    |
|---------------------------------|------------------|
| 2007                            | \$ 4,816         |
| 2008                            | 4,702            |
| 2009                            | 4,549            |
| 2010                            | 4,251            |
| 2011                            | 4,002            |
| 2012 and thereafter             | 18,133           |
| Total Future Rental Commitments | <u>\$ 40,453</u> |

The Company has not entered into any sale and leaseback arrangements.

**Note 13 - Estimated Fair Value of Financial Instruments**

Estimates of fair values are made at a specific point in time, based on relevant market prices and information about the financial instrument. The estimated fair values of financial instruments presented in Note 2 are not necessarily indicative of the amounts the Company might realize in actual market transactions.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 13 - Estimated Fair Value of Financial Instruments (continued)**

Estimated fair values for fixed income securities, excluding mortgage-backed securities, unaffiliated common and preferred stock are based on values specified in the NAIC valuation of securities manual, which approximate fair value. Mortgage-backed securities are based on quoted broker market prices.

For cash and short-term investments, accrued investment income and receivable from affiliates, the carrying amounts approximate estimated fair value because of the short maturity of such financial instruments. In addition, the carrying amount of accrued expenses approximates estimated fair value because of the short maturity of such financial instruments.

**Note 14 - Reconciliation to Annual Statement**

The following is a reconciliation of the Changes in Capital and Surplus per the Annual Statement to the Financial Statements at December 31, 2006:

|  | Per<br>Annual<br>Statement | Increase<br>(Decrease) | Per<br>Financial<br>Statements |
|--|----------------------------|------------------------|--------------------------------|
| Balance, January 1, 2006   | \$ 1,168,153               | \$ 3,420               | \$ 1,171,573                   |
| Net Income   | 166,938                    | -                      | 166,938                        |
| Change in Net Unrealized Capital Gains                                 | (23,744)                   | -                      | (23,744)                       |
| Change in Net Deferred Income Tax                                      | (7,074)                    | -                      | (7,074)                        |
| Change in Nonadmitted Assets   | 9,899                      | -                      | 9,899                          |
| Change in Provision for Reinsurance                                    | 851                        | -                      | 851                            |
| Change in Surplus Debenture  | 87                         | -                      | 87                             |
| Dividends to Shareholder   | (115,000)                  | -                      | (115,000)                      |
| Correction of Prior Year Intercompany Balances                         | 3,297                      | -                      | 3,297                          |
| Correction of Prior Year Deferred Taxes on<br>Unrealized Capital Gains | (6,569)                    | -                      | (6,569)                        |
| Correction of Prior Year Nonadmitted Assets                            | 3,420                      | (3,420)                | -                              |
| Balance, December 31, 2006   | <u>\$ 1,200,258</u>        | <u>\$ -</u>            | <u>\$ 1,200,258</u>            |

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
NOTES TO THE CONSOLIDATED STATUTORY BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005  
(Dollars in Thousands)

**Note 14 – Reconciliation to Annual Statement (continued)**

The following is a reconciliation of Liabilities and Changes in Capital and Surplus per the Annual Statement to the Financial Statements at December 31, 2005:

|  | Per<br>Annual<br>Statement | Increase<br>(Decrease) | Per<br>Financial<br>Statements |
|--|----------------------------|------------------------|--------------------------------|
| Accrued Expenses and Other Liabilities         | 90,407                     | (3,420)                | 86,987                         |
| Total Liabilities                              | <u>\$ 2,249,475</u>        | <u>\$ (3,420)</u>      | <u>\$ 2,246,055</u>            |
| Capital and Surplus Balance, December 31, 2004 |                            |                        |                                |
| As Restated (Note 1)                           | \$ 1,075,053               | \$ -                   | \$ 1,075,053                   |
| Net Income                                     | 105,146                    | -                      | 105,146                        |
| Change in Net Unrealized Capital Gains         | 89,276                     | -                      | 89,276                         |
| Change in Net Deferred Income Tax              | 25,555                     | (25)                   | 25,530                         |
| Change in Nonadmitted Assets                   | (16,970)                   | 3,445                  | (13,525)                       |
| Change in Provision for Reinsurance            | (1,382)                    | -                      | (1,382)                        |
| Change in Surplus Debenture                    | 81                         | -                      | 81                             |
| Dividends to Shareholder                       | (106,000)                  | -                      | (106,000)                      |
| Correction of Prior Year Intercompany Balances | (2,606)                    | -                      | (2,606)                        |
| Capital and Surplus Balance, December 31, 2005 | <u>\$ 1,168,153</u>        | <u>\$ 3,420</u>        | <u>\$ 1,171,573</u>            |
| Total Liabilities and Capital and Surplus      | <u>\$ 3,417,628</u>        | <u>\$ -</u>            | <u>\$ 3,417,628</u>            |

The following is a reconciliation of the Statement of Income per the Annual Statement to the Financial Statements at December 31, 2005:

|  | Per<br>Annual<br>Statement | Increase<br>(Decrease) | Per<br>Financial<br>Statements |
|--|----------------------------|------------------------|--------------------------------|
| Net Underwriting Loss  | \$ (854)                   | \$ -                   | \$ (854)                       |
| Investment Income  | 109,220                    | -                      | 109,220                        |
| Net Realized Capital Gains (Losses)                                  | 14,402                     | (16,598)               | (2,196)                        |
| Net Investment Income  | <u>123,622</u>             | <u>(16,598)</u>        | <u>107,024</u>                 |
| Total Other Income   | 26,459                     | -                      | 26,459                         |
| Income before Dividends to Policyholders and<br>Federal Income Taxes | 149,227                    | (16,598)               | 132,629                        |
| Dividends to Policyholders   | 679                        | -                      | 679                            |
| Income before Federal Income Taxes                                   | <u>148,548</u>             | <u>(16,598)</u>        | <u>131,950</u>                 |
| Federal Income Tax Expense   | 43,402                     | (16,598)               | 26,804                         |
| Net Income   | <u>\$ 105,146</u>          | <u>\$ -</u>            | <u>\$ 105,146</u>              |

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**CONSOLIDATING SCHEDULE – INFORMATION REGARDING STATUTORY BASIS STATEMENT OF**  
**ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS AT DECEMBER 31, 2006**  
(Dollars in Thousands)

|  | Per Annual Statements |                  |                  |                 |                  |                  |                  |                  |                  |                  |                  |                  | Adjustments<br>to Annual<br>Statements | Consol.<br>Entries  | Total               |
|--|-----------------------|------------------|------------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--|---------------------|---------------------|
|  | TUIC                  | CCMFIC           | UCMIC            | TLIC            | APCIC            | CIC              | MCIC             | MSC              | SNIC             | TUJK             | UNFIC            | VPCIC            |  |                     |                     |
| <b>ADMITTED ASSETS</b>   |                       |                  |                  |                 |                  |                  |                  |                  |                  |                  |                  |                  |  |                     |                     |
| Cash and Invested Assets:  |                       |                  |                  |                 |                  |                  |                  |                  |                  |                  |                  |                  |  |                     |                     |
| Bonds and Notes  | \$ 1,181,157          | \$ 3,450         | \$ 640           | \$ -            | \$ 13,062        | \$ 7,679         | \$ 8,649         | \$ 10,641        | \$ 11,555        | \$ 6,788         | \$ 11,859        | \$ 8,637         | \$ -                                   | \$ -                | \$ 1,264,117        |
| Preferred Stocks, at Market                                      | 57,560                | -                | -                | -               | -                | -                | -                | -                | -                | -                | -                | -                | -                                      | -                   | 57,560              |
| Common Stocks, at Market   | 1,148,437             | 754              | -                | -               | -                | -                | 52               | 52               | -                | -                | -                | -                | -                                      | -                   | 1,149,295           |
| Investments in Unconsolidated Subsidiaries                       | 281,509               | 7,940            | -                | -               | -                | -                | -                | -                | -                | -                | -                | -                | -                                      | (103,916) (A)       | 185,533             |
| Mortgage Loans on Real Estate                                    | 45,000                | 12               | -                | -               | -                | -                | -                | -                | -                | -                | 29               | -                | -                                      | -                   | 45,041              |
| Real Estate, at Cost   | 1,322                 | -                | -                | -               | -                | -                | -                | -                | -                | -                | -                | -                | -                                      | -                   | 1,322               |
| Short-term Investments   | 99,000                | 5,835            | 2,724            | -               | 1,100            | 1,989            | -                | -                | 3,769            | -                | 6,692            | 270              | -                                      | -                   | 121,379             |
| Cash   | (55,722)              | (1,141)          | 48               | 324             | 47               | 55               | 2,161            | 119              | 22               | 4,032            | 5,358            | 52               | -                                      | -                   | (44,645)            |
| Other Invested Assets  | 107,243               | -                | -                | -               | -                | -                | -                | -                | -                | -                | -                | -                | -                                      | -                   | 107,243             |
| Total Cash and Invested Assets                                   | <u>2,865,506</u>      | <u>16,850</u>    | <u>3,412</u>     | <u>324</u>      | <u>14,209</u>    | <u>9,723</u>     | <u>10,862</u>    | <u>10,812</u>    | <u>15,346</u>    | <u>10,820</u>    | <u>23,938</u>    | <u>8,959</u>     | <u>-</u>                               | <u>(103,916)</u>    | <u>2,886,845</u>    |
| Agents' Balances and Uncollected Premiums, Net                   | 429,034               | 598              | 34,735           | 2,348           | 12,222           | 1,366            | 9,556            | 803              | 16,799           | 10,762           | -                | 5,952            | -                                      | (105,810) (D)       | 418,365             |
| Recoverable from Reinsurers                                      | 5,336                 | 5,306            | -                | -               | -                | -                | 22               | 10               | 357              | 481              | 3,249            | 47               | -                                      | (7,331) (D)         | 7,477               |
| Accrued Investment Income  | 20,030                | 34               | 8                | -               | 249              | 155              | 154              | 173              | 194              | 70               | 88               | 77               | -                                      | (1,000) (E)         | 20,232              |
| Receivable from Parent/Affiliates                                | 2,383                 | 3,943            | 25               | 58              | -                | -                | 1                | -                | 229              | -                | 1,988            | 26               | -                                      | (3,389) (E)         | 5,264               |
| Other Admitted Assets  | 12,547                | 572              | 67               | 350             | 200              | 11               | 26               | 89               | 527              | 759              | 255              | 21               | -                                      | (1,206) (C),(F)     | 14,228              |
| Total Admitted Assets  | <u>\$ 3,334,836</u>   | <u>\$ 27,303</u> | <u>\$ 38,247</u> | <u>\$ 3,090</u> | <u>\$ 26,880</u> | <u>\$ 11,255</u> | <u>\$ 20,621</u> | <u>\$ 11,887</u> | <u>\$ 33,452</u> | <u>\$ 22,892</u> | <u>\$ 29,518</u> | <u>\$ 15,082</u> | <u>\$ -</u>                            | <u>\$ (222,652)</u> | <u>\$ 3,352,411</u> |
| <b>LIABILITIES AND CAPITAL AND SURPLUS</b>                       |                       |                  |                  |                 |                  |                  |                  |                  |                  |                  |                  |                  |  |                     |                     |
| Liabilities:   |                       |                  |                  |                 |                  |                  |                  |                  |                  |                  |                  |                  |  |                     |                     |
| Reserve for Losses   | \$ 976,771            | \$ -             | \$ -             | \$ -            | \$ -             | \$ -             | \$ -             | \$ -             | \$ -             | \$ -             | \$ -             | \$ -             | \$ -                                   | \$ -                | \$ 976,771          |
| Reserve for Loss Adjustment Expenses                             | 250,877               | -                | -                | -               | -                | -                | -                | -                | -                | -                | -                | -                | -                                      | -                   | 250,877             |
| Unearned Premiums  | 697,665               | -                | -                | -               | -                | -                | -                | -                | -                | -                | -                | -                | -                                      | -                   | 697,665             |
| Advance Premiums   | 774                   | 2,319            | -                | -               | -                | -                | 2                | -                | 30               | 18               | -                | 124              | -                                      | -                   | 3,267               |
| Reinsurance Payable on Paid Loss<br>and Loss Adjustment Expenses | 14,715                | -                | -                | -               | -                | -                | 3                | 3                | -                | -                | -                | -                | -                                      | (7,331) (D)         | 7,390               |
| Ceded Reinsurance Premiums Payable                               | 2,364                 | 7,815            | 34,734           | 2,344           | 12,222           | 1,366            | 9,666            | 819              | 17,129           | 11,122           | 2,858            | 6,082            | -                                      | (105,810) (D)       | 2,711               |
| Payable to Parent/Affiliates                                     | 4,957                 | 1,625            | -                | 385             | 55               | 15               | 21               | 1                | 58               | 92               | 706              | -                | -                                      | (3,389) (B)         | 4,526               |
| Accrued and Deferred Income Taxes                                | 140,335               | -                | -                | -               | -                | -                | -                | -                | 343              | 200              | 44               | -                | -                                      | (883) (F)           | 140,039             |
| Accrued Expenses and Other Liabilities                           | 62,126                | 2,763            | 288              | 37              | 640              | 5                | 600              | 539              | 520              | 1,046            | 1,312            | 31               | -                                      | (1,000) (E)         | 68,907              |
| Total Liabilities  | <u>2,150,584</u>      | <u>14,522</u>    | <u>35,022</u>    | <u>2,766</u>    | <u>12,917</u>    | <u>1,386</u>     | <u>10,292</u>    | <u>1,362</u>     | <u>18,080</u>    | <u>12,478</u>    | <u>4,920</u>     | <u>6,237</u>     | <u>-</u>                               | <u>(118,413)</u>    | <u>2,152,153</u>    |
| Capital and Surplus:   |                       |                  |                  |                 |                  |                  |                  |                  |                  |                  |                  |                  |  |                     |                     |
| Common Stock   | 3,250                 | -                | -                | 300             | 4,200            | 3,000            | 1,500            | 2,000            | 3,000            | 3,000            | 1,000            | 3,514            | -                                      | (21,514) (A),(C)    | 3,250               |
| Additional Paid-in Capital                                       | 392,698               | -                | -                | 24              | 7,300            | -                | 8,198            | 7,721            | 500              | 1,200            | 4,810            | 4,225            | -                                      | (33,978) (A),(C)    | 392,698             |
| Treasury Stock at Cost   | (3)                   | -                | -                | -               | -                | -                | -                | -                | -                | -                | -                | -                | -                                      | -                   | (3)                 |
| Surplus Debenture  | -                     | -                | 2,936            | -               | -                | -                | -                | -                | -                | -                | -                | -                | -                                      | -                   | 2,936               |
| Unassigned Surplus   | 788,307               | 12,781           | 289              | -               | 2,463            | 6,869            | 631              | 804              | 11,872           | 6,214            | 18,788           | 1,106            | -                                      | (48,747) (A)        | 801,377             |
| Total Capital and Surplus  | <u>1,184,252</u>      | <u>12,781</u>    | <u>3,225</u>     | <u>324</u>      | <u>13,963</u>    | <u>9,869</u>     | <u>10,329</u>    | <u>10,525</u>    | <u>15,372</u>    | <u>10,414</u>    | <u>24,598</u>    | <u>8,845</u>     | <u>-</u>                               | <u>(104,239)</u>    | <u>1,200,258</u>    |
| Total Liabilities Capital and Surplus                            | <u>\$ 3,334,836</u>   | <u>\$ 27,303</u> | <u>\$ 38,247</u> | <u>\$ 3,090</u> | <u>\$ 26,880</u> | <u>\$ 11,255</u> | <u>\$ 20,621</u> | <u>\$ 11,887</u> | <u>\$ 33,452</u> | <u>\$ 22,892</u> | <u>\$ 29,518</u> | <u>\$ 15,082</u> | <u>\$ -</u>                            | <u>\$ (222,652)</u> | <u>\$ 3,352,411</u> |

See Accompanying Independent Auditors' Report.

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**CONSOLIDATING SCHEDULE – INFORMATION REGARDING STATUTORY BASIS STATEMENT OF**  
**ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS AT DECEMBER 31, 2005**  
(Dollars in Thousands)

|  | Per Annual Statements |                  |                 |                 |                  |                 |                  |                  |                  |                  |                  |                  | Adjustments<br>to Annual<br>Statements | Consol.<br>Entries  | Total               |
|--|-----------------------|------------------|-----------------|-----------------|------------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|--|---------------------|---------------------|
|  | TUIC                  | CCMFIC           | UCMIC           | TLIC            | APCIC            | CIC             | MCIC             | MSC              | SNIC             | TUK              | UNFIC            | VPCIC            |  |                     |                     |
| <b>ADMITTED ASSETS</b>   |                       |                  |                 |                 |                  |                 |                  |                  |                  |                  |                  |                  |  |                     |                     |
| Cash and Invested Assets:  |                       |                  |                 |                 |                  |                 |                  |                  |                  |                  |                  |                  |  |                     |                     |
| Bonds and Notes  | \$ 1,390,599          | \$ 4,863         | \$ 692          | \$ -            | \$ 14,149        | \$ 7,953        | \$ 11,215        | \$ 11,443        | \$ 13,653        | \$ 9,734         | \$ 16,940        | \$ 7,514         | \$ -                                   | \$ -                | \$ 1,488,755        |
| Preferred Stocks, at Market                                      | 66,110                | -                | -               | -               | -                | -               | -                | -                | -                | -                | -                | -                | -                                      | -                   | 66,110              |
| Common Stocks, at Market   | 1,049,305             | 662              | -               | -               | -                | -               | 33               | 33               | -                | -                | -                | -                | -                                      | -                   | 1,050,033           |
| Investments in Unconsolidated Subsidiaries                       | 281,172               | 7,490            | -               | -               | -                | -               | -                | -                | -                | -                | -                | -                | -                                      | (105,096) (A)       | 183,566             |
| Mortgage Loans on Real Estate                                    | 45,000                | 28               | -               | -               | -                | -               | -                | -                | -                | -                | 33               | -                | -                                      | -                   | 45,061              |
| Real Estate, at Cost   | 1,322                 | -                | -               | -               | -                | -               | -                | -                | -                | -                | -                | -                | -                                      | -                   | 1,322               |
| Short-term Investments   | 34,200                | 3,399            | 2,333           | -               | -                | 1,350           | 410              | 230              | 3,188            | 500              | -                | -                | -                                      | -                   | 45,610              |
| Cash   | (61,329)              | (2,017)          | -               | 324             | 30               | 28              | 101              | 100              | 73               | 57               | (5,342)          | 935              | -                                      | -                   | (67,040)            |
| Other Invested Assets  | 67,486                | -                | -               | -               | -                | -               | -                | -                | -                | -                | -                | -                | -                                      | -                   | 67,486              |
| Total Cash and Invested Assets                                   | <u>2,873,865</u>      | <u>14,425</u>    | <u>3,025</u>    | <u>324</u>      | <u>14,179</u>    | <u>9,331</u>    | <u>11,759</u>    | <u>11,806</u>    | <u>16,914</u>    | <u>10,291</u>    | <u>11,631</u>    | <u>8,449</u>     | <u>-</u>                               | <u>(105,096)</u>    | <u>2,880,903</u>    |
| Agents' Balances and Uncollected Premiums, Net                   | 491,688               | 612              | -               | 4,823           | -                | -               | 6,636            | 3,125            | 6,094            | -                | -                | 4,767            | -                                      | (34,240) (D)        | 483,505             |
| Recoverable from Reinsurers                                      | 390                   | 11,131           | -               | 2               | -                | -               | 7                | 10               | 2                | 248              | 11,045           | 59               | -                                      | (9,764) (D)         | 13,130              |
| Accrued Investment Income  | 21,627                | 41               | 15              | -               | 263              | 165             | 195              | 186              | 221              | 121              | 122              | 81               | -                                      | -                   | 23,037              |
| Receivable from Parent/Affiliates                                | 526                   | 3,332            | 277             | 185             | -                | 17              | 43               | -                | 154              | 216              | 4,146            | 134              | -                                      | (6,547) (B)         | 2,483               |
| Other Admitted Assets  | 12,476                | 154              | 77              | 116             | 136              | 9               | 31               | -                | 521              | 999              | 326              | 5                | -                                      | (280) (C),(F)       | 14,570              |
| Total Admitted Assets  | <u>\$ 3,400,572</u>   | <u>\$ 29,695</u> | <u>\$ 3,394</u> | <u>\$ 5,450</u> | <u>\$ 14,578</u> | <u>\$ 9,522</u> | <u>\$ 18,671</u> | <u>\$ 15,127</u> | <u>\$ 23,906</u> | <u>\$ 11,875</u> | <u>\$ 27,270</u> | <u>\$ 13,495</u> | <u>\$ -</u>                            | <u>\$ (155,927)</u> | <u>\$ 3,417,628</u> |
| <b>LIABILITIES AND CAPITAL AND SURPLUS</b>                       |                       |                  |                 |                 |                  |                 |                  |                  |                  |                  |                  |                  |  |                     |                     |
| Liabilities:   |                       |                  |                 |                 |                  |                 |                  |                  |                  |                  |                  |                  |  |                     |                     |
| Reserve for Losses   | \$ 1,006,164          | \$ -             | \$ -            | \$ -            | \$ -             | \$ -            | \$ -             | \$ -             | \$ -             | \$ -             | \$ -             | \$ -             | \$ -                                   | \$ -                | \$ 1,006,164        |
| Reserve for Loss Adjustment Expenses                             | 255,744               | -                | -               | -               | -                | -               | -                | -                | -                | -                | -                | -                | -                                      | -                   | 255,744             |
| Unearned Premiums  | 726,767               | -                | -               | -               | -                | -               | -                | -                | -                | -                | -                | -                | -                                      | -                   | 726,767             |
| Advance Premiums   | 7,514                 | 2,505            | -               | -               | -                | -               | -                | -                | -                | -                | -                | -                | -                                      | -                   | 10,019              |
| Reinsurance Payable on Paid Loss<br>and Loss Adjustment Expenses | 14,128                | -                | -               | -               | -                | -               | 12               | 3                | -                | -                | -                | -                | -                                      | (9,764) (D)         | 4,379               |
| Ceded Reinsurance Premiums Payable                               | 3,262                 | 8,700            | 51              | 4,980           | -                | -               | 6,946            | 3,430            | 6,227            | 194              | -                | 4,933            | -                                      | (34,240) (D)        | 4,483               |
| Payable to Parent/Affiliates                                     | 12,553                | 3,872            | -               | -               | 5                | -               | 18               | 23               | -                | 57               | 1,547            | -                | -                                      | (6,547) (B)         | 11,528              |
| Accrued and Deferred Income Taxes                                | 139,585               | -                | -               | -               | -                | -               | -                | -                | 383              | 233              | 63               | -                | -                                      | (280) (F)           | 139,984             |
| Accrued Expenses and Other Liabilities                           | 81,895                | 2,871            | 195             | 172             | 235              | 130             | 956              | 642              | 479              | 470              | 2,215            | 147              | (3,420)                                | -                   | 86,987              |
| Total Liabilities  | <u>2,247,612</u>      | <u>17,948</u>    | <u>246</u>      | <u>5,152</u>    | <u>240</u>       | <u>130</u>      | <u>7,932</u>     | <u>4,098</u>     | <u>7,089</u>     | <u>954</u>       | <u>3,825</u>     | <u>5,080</u>     | <u>(3,420)</u>                         | <u>(50,831)</u>     | <u>2,246,055</u>    |
| Capital and Surplus:   |                       |                  |                 |                 |                  |                 |                  |                  |                  |                  |                  |                  |  |                     |                     |
| Common Stock   | 3,250                 | -                | -               | 300             | 3,000            | 1,500           | 1,500            | 2,000            | 3,000            | 3,000            | 1,000            | 3,514            | -                                      | (18,814) (A),(C)    | 3,250               |
| Additional Paid-in Capital                                       | 392,698               | -                | -               | 24              | 8,500            | -               | 8,197            | 7,721            | 500              | 1,200            | 4,810            | 4,225            | -                                      | (35,177) (A),(C)    | 392,698             |
| Treasury Stock at Cost   | (3)                   | -                | -               | -               | -                | -               | -                | -                | -                | -                | -                | -                | -                                      | -                   | (3)                 |
| Surplus Debiture   | -                     | -                | 2,849           | -               | -                | -               | -                | -                | -                | -                | -                | -                | -                                      | -                   | 2,849               |
| Unassigned Surplus   | 757,915               | 11,747           | 299             | (26)            | 2,838            | 7,892           | 1,042            | 1,308            | 13,317           | 6,721            | 17,635           | 676              | 3,420                                  | (51,105) (A)        | 772,779             |
| Total Capital and Surplus  | <u>1,152,960</u>      | <u>11,747</u>    | <u>3,148</u>    | <u>298</u>      | <u>14,338</u>    | <u>9,392</u>    | <u>10,739</u>    | <u>11,029</u>    | <u>16,817</u>    | <u>10,921</u>    | <u>23,445</u>    | <u>8,415</u>     | <u>3,420</u>                           | <u>(105,096)</u>    | <u>1,171,573</u>    |
| Total Liabilities Capital and Surplus                            | <u>\$ 3,400,572</u>   | <u>\$ 29,695</u> | <u>\$ 3,394</u> | <u>\$ 5,450</u> | <u>\$ 14,578</u> | <u>\$ 9,522</u> | <u>\$ 18,671</u> | <u>\$ 15,127</u> | <u>\$ 23,906</u> | <u>\$ 11,875</u> | <u>\$ 27,270</u> | <u>\$ 13,495</u> | <u>\$ -</u>                            | <u>\$ (155,927)</u> | <u>\$ 3,417,628</u> |

See Accompanying Independent Auditors' Report.

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**CONSOLIDATING SCHEDULE – INFORMATION REGARDING STATUTORY BASIS STATEMENT OF**  
**INCOME FOR THE YEAR ENDED DECEMBER 31, 2006**  
(Dollars in Thousands)

|   | Per Annual Statements |        |       |      |        |        |        |        |        |        |        |        | Adjustments<br>to Annual<br>Statements | Consol.<br>Entries | Total |      |              |
|---|-----------------------|--------|-------|------|--------|--------|--------|--------|--------|--------|--------|--------|--|--------------------|-------|------|--------------|
|   | TUIC                  | CCMFIC | UCMIC | TLIC | APCIC  | CIC    | MCIC   | MSIC   | SNIC   | TUIK   | UNFIC  | VPCIC  |  |                    |       |      |              |
| <b>Underwriting Income (Loss):</b>  |                       |        |       |      |        |        |        |        |        |        |        |        |  |                    |       |      |              |
| Earned Premiums, Net  | \$ 1,804,915          | \$ -   | \$ -  | \$ - | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -                                   | \$ -               | \$ -  | \$ - | \$ 1,804,915 |
| <b>Underwriting Expenses:</b>   |                       |        |       |      |        |        |        |        |        |        |        |        |  |                    |       |      |              |
| Losses Incurred   | 979,056               | -      | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | -    | 979,056      |
| Loss Adjustment Expenses Incurred   | 201,603               | -      | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | -    | 201,603      |
| Other Underwriting Expenses   | 568,798               | 94     | (140) | -    | 7      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | -    | 568,799      |
| Total Underwriting Expenses   | 1,749,457             | 94     | (140) | -    | 7      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | -    | 1,749,418    |
| Net Underwriting Income (Loss)  | 55,458                | (94)   | 140   | -    | (7)    | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | -    | 55,497       |
| <b>Net Investment Income:</b>   |                       |        |       |      |        |        |        |        |        |        |        |        |  |                    |       |      |              |
| Investment Income (Net of investment expense of \$1,250)                    | 107,767               | 392    | (138) | -    | 722    | 477    | 578    | 592    | 787    | 507    | 821    | 421    | -                                      | -                  | -     | -    | 112,926      |
| Net Realized Capital Gains (Losses) (Net of income tax expense of \$10,167) | 13,473                | (4)    | (2)   | -    | 193    | -      | 104    | 10     | -      | 46     | 11     | 43     | -                                      | -                  | -     | -    | 13,874       |
| Net Investment Income (Loss)  | 121,240               | 388    | (140) | -    | 915    | 477    | 682    | 602    | 787    | 553    | 832    | 464    | -                                      | -                  | -     | -    | 126,800      |
| <b>Other Income (Loss):</b>   |                       |        |       |      |        |        |        |        |        |        |        |        |  |                    |       |      |              |
| Loss from Agent and Premium Balance Write-offs                              | (15,788)              | -      | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | -    | (15,788)     |
| Net Finance and Service Charges   | 37,476                | -      | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | -    | 37,476       |
| Other Income  | 2,762                 | -      | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | -    | 2,762        |
| Total Other Income  | 24,450                | -      | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | -    | 24,450       |
| <b>Income before Dividends to Policyholders and Federal Income Taxes</b>    | 201,148               | 294    | -     | -    | 908    | 477    | 682    | 602    | 787    | 553    | 832    | 464    | -                                      | -                  | -     | -    | 206,747      |
| Dividends to Policyholders  | 479                   | -      | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | -    | 479          |
| Income before Federal Income Taxes  | 200,669               | 294    | -     | -    | 908    | 477    | 682    | 602    | 787    | 553    | 832    | 464    | -                                      | -                  | -     | -    | 206,268      |
| Federal Income Tax Expense  | 38,761                | 103    | -     | -    | -      | -      | -      | -      | 243    | 81     | 142    | -      | -                                      | -                  | -     | -    | 39,330       |
| Net Income  | \$ 161,908            | \$ 191 | \$ -  | \$ - | \$ 908 | \$ 477 | \$ 682 | \$ 602 | \$ 544 | \$ 472 | \$ 690 | \$ 464 | \$ -                                   | \$ -               | \$ -  | \$ - | \$ 166,938   |

See Accompanying Independent Auditors' Report.

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**CONSOLIDATING SCHEDULE – INFORMATION REGARDING STATUTORY BASIS STATEMENT OF**  
**INCOME FOR THE YEAR ENDED DECEMBER 31, 2005**  
(Dollars in Thousands)

|   | Per Annual Statements |          |       |      |        |        |        |        |        |        |        |        | Adjustments<br>to Annual<br>Statements | Consol.<br>Entries | Total |              |
|---|-----------------------|----------|-------|------|--------|--------|--------|--------|--------|--------|--------|--------|--|--------------------|-------|--------------|
|   | TUJC                  | CCMFIC   | UCMIC | TLIC | APCIC  | CIC    | MCIC   | MSIC   | SNIC   | TUIK   | UNFIC  | VPCIC  |  |                    |       |              |
| <b>Underwriting Income (Loss):</b>  |                       |          |       |      |        |        |        |        |        |        |        |        |  |                    |       |              |
| Earned Premiums, Net  | \$ 1,801,828          | \$ 1,574 | \$ -  | \$ - | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -                                   | \$ -               | \$ -  | \$ 1,803,402 |
| Underwriting Expenses:  |                       |          |       |      |        |        |        |        |        |        |        |        |  |                    |       |              |
| Losses Incurred   | 997,094               | 470      | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | 997,564      |
| Loss Adjustment Expenses Incurred   | 228,126               | 31       | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | 228,157      |
| Other Underwriting Expenses   | 578,086               | 540      | (91)  | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | 578,535      |
| Total Underwriting Expenses   | 1,803,306             | 1,041    | (91)  | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | 1,804,256    |
| Net Underwriting Income (Loss)  | (1,478)               | 533      | 91    | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | (854)        |
| <b>Net Investment Income:</b>   |                       |          |       |      |        |        |        |        |        |        |        |        |  |                    |       |              |
| Investment Income (Net of investment<br>expense of \$531)                       | 104,376               | 299      | 86    | -    | 740    | 443    | 578    | 591    | 632    | 535    | 577    | 363    | -                                      | -                  | -     | 109,220      |
| Net Realized Capital Gains (Losses) (Net<br>of income tax expense of: \$24,303) | 14,338                | -        | -     | -    | 38     | 112    | 5      | (1)    | (5)    | 2      | (87)   | -      | (16,598)                               | -                  | -     | (2,196)      |
| Net Investment Income (Loss)  | 118,714               | 299      | 86    | -    | 778    | 555    | 583    | 590    | 627    | 537    | 490    | 363    | (16,598)                               | -                  | -     | 107,024      |
| <b>Other Income (Loss):</b>   |                       |          |       |      |        |        |        |        |        |        |        |        |  |                    |       |              |
| Loss from Agent and Premium<br>Balance Write-offs                               | (12,276)              | -        | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | (12,276)     |
| Net Finance and Service Charges   | 38,912                | -        | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | 38,912       |
| Other Income (Expense)  | -                     | -        | (177) | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | (177)        |
| Total Other Income  | 26,636                | -        | (177) | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | 26,459       |
| <b>Income before Dividends to Policyholders<br/>and Federal Income Taxes</b>    | 143,872               | 832      | -     | -    | 778    | 555    | 583    | 590    | 627    | 537    | 490    | 363    | (16,598)                               | -                  | -     | 132,629      |
| Dividends to Policyholders  | 679                   | -        | -     | -    | -      | -      | -      | -      | -      | -      | -      | -      | -                                      | -                  | -     | 679          |
| Income before Federal Income Taxes  | 143,193               | 832      | -     | -    | 778    | 555    | 583    | 590    | 627    | 537    | 490    | 363    | (16,598)                               | -                  | -     | 131,950      |
| Federal Income Tax Expense  | 43,168                | (140)    | -     | -    | -      | -      | (3)    | -      | 178    | 72     | 127    | -      | (16,598)                               | -                  | -     | 26,804       |
| Net Income  | \$ 100,025            | \$ 972   | \$ -  | \$ - | \$ 778 | \$ 555 | \$ 586 | \$ 590 | \$ 449 | \$ 465 | \$ 363 | \$ 363 | \$ -                                   | \$ -               | \$ -  | \$ 105,146   |

See Accompanying Independent Auditors' Report.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
CONSOLIDATING SCHEDULE – INFORMATION REGARDING STATUTORY BASIS STATEMENT  
OF CHANGES IN CAPITAL AND SURPLUS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Dollars in Thousands)

|   | Per Annual Statements |           |          |        |           |          |           |           |           |           |           |          | Adjustments<br>to Annual<br>Statements | Consol.<br>Entries | Total |              |
|---|-----------------------|-----------|----------|--------|-----------|----------|-----------|-----------|-----------|-----------|-----------|----------|--|--------------------|-------|--------------|
|   | TUJC                  | CCMFIC    | UCMIC    | TLIC   | APCIC     | CIC      | MCIC      | MSIC      | SNIC      | TUJK      | UNFIC     | VPCIC    |  |                    |       |              |
| Balance, Beginning of Year  | \$ 1,152,960          | \$ 11,747 | \$ 3,148 | \$ 298 | \$ 14,338 | \$ 9,392 | \$ 10,739 | \$ 11,029 | \$ 16,817 | \$ 10,921 | \$ 23,445 | \$ 8,415 | \$ 3,420                               | \$ (105,096)       | (A)   | \$ 1,171,573 |
| Net Income  | 161,908               | 191       | -        | -      | 908       | 477      | 682       | 602       | 544       | 472       | 690       | 464      | -                                      | -                  | -     | 166,938      |
| Change in Unrealized Capital Gains<br>and Losses                  | (19,001)              | 511       | -        | -      | -         | -        | 12        | 13        | -         | -         | -         | -        | -                                      | (5,279)            | (A)   | (23,744)     |
| Change in Net Deferred Income Tax                                 | (7,444)               | (352)     | 1        | -      | (215)     | 543      | (73)      | (60)      | 114       | 28        | 3         | 381      | -                                      | -                  | -     | (7,074)      |
| Change in Nonadmitted Assets                                      | 10,606                | 599       | (9)      | -      | 332       | (543)    | (29)      | 45        | (274)     | (78)      | (1)       | (425)    | -                                      | (324)              | (A)   | 9,899        |
| Change in Provision for Reinsurance                               | 75                    | 85        | (2)      | 26     | -         | -        | (2)       | (4)       | (229)     | 71        | 821       | 10       | -                                      | -                  | -     | 851          |
| Change in Surplus Debenture                                       | -                     | -         | 87       | -      | -         | -        | -         | -         | -         | -         | -         | -        | -                                      | -                  | -     | 87           |
| Dividends to Shareholder  | (115,000)             | -         | -        | -      | (1,400)   | -        | (1,000)   | (1,100)   | (1,600)   | (1,000)   | (360)     | -        | -                                      | 6,460              | (A)   | (115,000)    |
| Correction of Prior Year Intercompany<br>Balances                 | 3,297                 | -         | -        | -      | -         | -        | -         | -         | -         | -         | -         | -        | -                                      | -                  | -     | 3,297        |
| Correction of Prior Deferred Taxes<br>on Unrealized Capital Gains | (6,569)               | -         | -        | -      | -         | -        | -         | -         | -         | -         | -         | -        | -                                      | -                  | -     | (6,569)      |
| Correction of Prior Year Nonadmitted<br>Assets                    | 3,420                 | -         | -        | -      | -         | -        | -         | -         | -         | -         | -         | -        | (3,420)                                | -                  | -     | -            |
| Balance, End of Year  | \$ 1,184,232          | \$ 12,781 | \$ 3,225 | \$ 324 | \$ 13,963 | \$ 9,869 | \$ 10,329 | \$ 10,525 | \$ 15,372 | \$ 10,414 | \$ 24,598 | \$ 8,845 | \$ -                                   | \$ (104,239)       |       | \$ 1,200,258 |

See Accompanying Independent Auditors' Report.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
CONSOLIDATING SCHEDULE – INFORMATION REGARDING STATUTORY BASIS STATEMENT  
OF CHANGES IN CAPITAL AND SURPLUS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Dollars in Thousands)

|  | Per Annual Statements |           |          |        |           |          |           |           |           |           |           |          | Adjustments<br>to Annual<br>Statements | Consol.<br>Entries | Total   |              |           |
|--|-----------------------|-----------|----------|--------|-----------|----------|-----------|-----------|-----------|-----------|-----------|----------|--|--------------------|---------|--------------|-----------|
|  | TUIC                  | CCMFIC    | UCMIC    | TLIC   | APCIC     | CIC      | MCIC      | MSIC      | SNIC      | TUIK      | UNFIC     | VPCIC    |  |                    |         |              |           |
| Balance, Beginning of Year                     | \$ 1,061,208          | \$ 10,777 | \$ 3,068 | \$ 324 | \$ 14,987 | \$ 8,826 | \$ 11,313 | \$ 11,595 | \$ 18,288 | \$ 11,615 | \$ 24,676 | \$ 8,062 | \$ -                                   | \$ (109,686)       | (A)     | \$ 1,075,053 |           |
| Net Income                                     | 100,025               | 972       | -        | -      | 778       | 555      | 586       | 590       | 449       | 465       | 363       | 363      | -                                      | -                  | -       | 105,146      |           |
| Change in Unrealized Capital Gains             | 91,809                | 355       | -        | -      | -         | -        | 13        | 13        | -         | -         | -         | -        | -                                      | -                  | (2,914) | (A)          | 89,276    |
| Change in Net Deferred Income Tax              | 25,495                | (593)     | -        | -      | (118)     | 539      | (75)      | (91)      | 1         | (30)      | 7         | 420      | (25)                                   | -                  | -       | 25,530       |           |
| Change in Nonadmitted Assets                   | (16,763)              | 607       | -        | -      | 91        | (528)    | 6         | 23        | (47)      | 60        | 1         | (420)    | 3,445                                  | -                  | -       | (13,525)     |           |
| Change in Provision for Reinsurance            | 116                   | (371)     | (1)      | (26)   | -         | -        | (4)       | (1)       | (74)      | (89)      | (922)     | (10)     | -                                      | -                  | -       | (1,382)      |           |
| Change in Surplus Debenture                    | -                     | -         | 81       | -      | -         | -        | -         | -         | -         | -         | -         | -        | -                                      | -                  | -       | 81           |           |
| Dividends to Shareholder                       | (106,000)             | -         | -        | -      | (1,400)   | -        | (1,100)   | (1,100)   | (1,800)   | (1,100)   | (680)     | -        | -                                      | -                  | 7,180   | (A)          | (106,000) |
| Correction of Prior Year Intercompany Balances | (2,930)               | -         | -        | -      | -         | -        | -         | -         | -         | -         | -         | -        | -                                      | -                  | 324     | (A)          | (2,606)   |
| Balance, End of Year                           | \$ 1,152,960          | \$ 11,747 | \$ 3,148 | \$ 298 | \$ 14,338 | \$ 9,392 | \$ 10,739 | \$ 11,029 | \$ 16,817 | \$ 10,921 | \$ 23,445 | \$ 8,415 | \$ 3,420                               | \$ (105,096)       |         | \$ 1,171,573 |           |

See Accompanying Independent Auditors' Report.

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**CONSOLIDATING SCHEDULE – INFORMATION REGARDING STATUTORY BASIS STATEMENT OF**  
**CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2006**  
(Dollars in Thousands)

|   | Per Annual Statements |          |          |          |          |          |          |          |          |          |           |         | Consol.<br>Entries | Total |              |
|---|-----------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|---------|--------------------|-------|--------------|
|   | TUIC                  | CCMFIC   | UCMIC    | TLIC     | APCIC    | CIC      | MCIC     | MSIC     | SNIC     | TUIK     | UNIFC     | VPCIC   |                    |       |              |
| <b>Cash Provided (Used) by Operations:</b>                    |                       |          |          |          |          |          |          |          |          |          |           |         |                    |       |              |
| Revenues:   |                       |          |          |          |          |          |          |          |          |          |           |         |                    |       |              |
| Premiums Collected, Net of Reinsurance                        | \$ 1,834,541          | \$ -     | \$ (53)  | \$ (161) | \$ -     | \$ -     | \$ (307) | \$ (290) | \$ (95)  | \$ 106   | \$ -      | \$ 48   | \$ -               | \$ -  | \$ 1,833,789 |
| Investment Income (Loss), Net                                 | 110,595               | 405      | (130)    | -        | 773      | 511      | 644      | 619      | 892      | 543      | 922       | 398     | (5,460)            | (G)   | 110,712      |
| Miscellaneous Income  | 24,450                | -        | -        | -        | -        | -        | -        | -        | -        | -        | -         | -       | -                  | -     | 24,450       |
| Cash Provided by Revenues                                     | 1,969,586             | 405      | (183)    | (161)    | 773      | 511      | 337      | 329      | 797      | 649      | 922       | 446     | (5,460)            |       | 1,968,951    |
| Benefits and Loss Related (Payments)                          |                       |          |          |          |          |          |          |          |          |          |           |         |                    |       |              |
| Recoveries  | (1,011,025)           | -        | -        | 2        | -        | -        | (24)     | -        | (308)    | (233)    | -         | 12      | -                  | -     | (1,011,576)  |
| Commissions and Expense (Payments)                            |                       |          |          |          |          |          |          |          |          |          |           |         |                    |       |              |
| Recoveries  | (787,870)             | (94)     | 194      | (354)    | 403      | (127)    | (347)    | (104)    | (61)     | (158)    | -         | (100)   | -                  | -     | (788,618)    |
| Dividends Paid to Policyholders                               | (479)                 | -        | -        | -        | -        | -        | -        | -        | -        | -        | -         | -       | -                  | -     | (479)        |
| Federal Income Tax Paid                                       | (50,961)              | (307)    | -        | -        | -        | -        | -        | -        | (281)    | (111)    | (140)     | -       | -                  | -     | (51,800)     |
| Cash Used for Benefits and Expenses                           | (1,850,335)           | (401)    | 194      | (352)    | 403      | (127)    | (371)    | (104)    | (650)    | (502)    | (140)     | (88)    | -                  | -     | (1,852,473)  |
| Net Cash Provided (Used) by Operations                        | 119,251               | 4        | 11       | (513)    | 1,176    | 384      | (34)     | 225      | 147      | 147      | 782       | 358     | (5,460)            |       | 116,478      |
| <b>Cash Provided (Used) by Investments:</b>                   |                       |          |          |          |          |          |          |          |          |          |           |         |                    |       |              |
| Cash Provided from Investments Sold, Matured or Repaid:       |                       |          |          |          |          |          |          |          |          |          |           |         |                    |       |              |
| Bonds and Notes   | 251,875               | 1,400    | 52       | -        | 4,307    | 250      | 2,645    | 1,027    | 6,632    | 3,140    | 5,201     | 1,111   | -                  | -     | 277,640      |
| Stocks  | 78,512                | -        | -        | -        | -        | -        | -        | -        | -        | -        | -         | -       | -                  | -     | 78,512       |
| Other Invested Assets   | 42,283                | 16       | (2)      | -        | -        | -        | -        | -        | -        | -        | 3         | -       | -                  | -     | 42,300       |
| Total Cash Provided from Investments Sold, Matured or Repaid  | 372,670               | 1,416    | 50       | -        | 4,307    | 250      | 2,645    | 1,027    | 6,632    | 3,140    | 5,204     | 1,111   | -                  | -     | 398,452      |
| Cash Used to Acquire Investments:                             |                       |          |          |          |          |          |          |          |          |          |           |         |                    |       |              |
| Bonds and Notes   | (42,230)              | -        | -        | (3,064)  | -        | -        | (228)    | (4,612)  | (108)    | (166)    | (2,164)   | -       | -                  | -     | (52,572)     |
| Stocks  | (176,148)             | -        | -        | -        | -        | -        | -        | -        | -        | -        | -         | -       | -                  | -     | (176,148)    |
| Other Invested Assets   | (77,641)              | -        | -        | -        | -        | -        | -        | -        | -        | -        | -         | -       | -                  | -     | (77,641)     |
| Total Cash Used to Acquire Investments                        | (296,019)             | -        | -        | (3,064)  | -        | -        | (228)    | (4,612)  | (108)    | (166)    | (2,164)   | -       | -                  | -     | (306,361)    |
| Net Cash Provided (Used) by Investments                       | 76,651                | 1,416    | 50       | (3,064)  | 250      | 2,645    | 799      | 2,020    | 3,032    | 3,032    | 5,038     | (1,053) | -                  | -     | 92,091       |
| <b>Cash Provided (Used) by Financing and Other Sources:</b>   |                       |          |          |          |          |          |          |          |          |          |           |         |                    |       |              |
| Other Cash Provided (Applied):                                |                       |          |          |          |          |          |          |          |          |          |           |         |                    |       |              |
| Dividends to Shareholder                                      | (115,000)             | -        | 87       | -        | (1,400)  | -        | (1,000)  | (1,100)  | (1,600)  | -        | (360)     | -       | 5,460              | (G)   | (115,000)    |
| Capital and Surplus Paid In                                   | -                     | -        | -        | -        | -        | -        | -        | -        | -        | -        | -         | -       | -                  | -     | 87           |
| Other Cash Provided (Applied)                                 | (10,495)              | 1,892    | 291      | 513      | 98       | 32       | 39       | (135)    | (37)     | 296      | 11,932    | 82      | -                  | -     | 4,508        |
| Net Cash Provided (Used) by Financing and Other Sources       | (125,495)             | 1,892    | 378      | 513      | (1,302)  | 32       | (961)    | (1,235)  | (1,637)  | 296      | 11,572    | 82      | 5,460              |       | (110,405)    |
| <b>Increase (Decrease) in Cash and Short-term Investments</b> | 70,407                | 3,312    | 439      | -        | 1,117    | 666      | 1,650    | (211)    | 530      | 3,475    | 17,392    | (613)   | -                  | -     | 98,164       |
| Cash and Short-term Investments at Beginning of Year          | (27,129)              | 1,382    | 2,333    | 324      | 30       | 1,378    | 511      | 330      | 3,261    | 557      | (5,342)   | 935     | -                  | -     | (21,430)     |
| Cash and Short-term Investments at End of Year                | \$ 43,278             | \$ 4,694 | \$ 2,772 | \$ 324   | \$ 1,147 | \$ 2,044 | \$ 2,161 | \$ 119   | \$ 3,791 | \$ 4,032 | \$ 12,050 | \$ 322  | \$ -               | \$ -  | \$ 76,734    |

See Accompanying Independent Auditors' Report.

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**CONSOLIDATING SCHEDULE – INFORMATION REGARDING STATUTORY BASIS STATEMENT OF**  
**CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2005**  
(Dollars in Thousands)

|   | Per Annual Statements |          |          |        |         |          |         |         |          |         |            |        | Consol.<br>Entries | Total |              |
|---|-----------------------|----------|----------|--------|---------|----------|---------|---------|----------|---------|------------|--------|--------------------|-------|--------------|
|   | TUIC                  | CCMFIC   | UCMIC    | TLIC   | APCIC   | CIC      | MCIC    | MSCIC   | SNIC     | TUJK    | UNFIC      | VPCIC  |                    |       |              |
| <b>Cash Provided (Used) by Operations:</b>                    |                       |          |          |        |         |          |         |         |          |         |            |        |                    |       |              |
| Revenues:   |                       |          |          |        |         |          |         |         |          |         |            |        |                    |       |              |
| Premiums Collected, Net of Reinsurance                        | \$ 1,729,518          | \$ 2,580 | \$ 51    | \$ 157 | \$ -    | \$ -     | \$ 47   | \$ 40   | \$ 139   | \$ 194  | \$ -       | \$ 71  | \$ -               | \$ -  | \$ 1,732,797 |
| Investment Income (Loss), Net                                 | 107,525               | 308      | (97)     | -      | 774     | 509      | 583     | 603     | 862      | 528     | 751        | 330    | (7,180)            | (G)   | 105,496      |
| Miscellaneous Income  | 26,922                | -        | -        | -      | -       | -        | -       | -       | -        | -       | -          | -      | -                  | -     | 26,922       |
| Cash Provided by Revenues                                     | 1,863,965             | 2,888    | (46)     | 157    | 774     | 509      | 630     | 643     | 1,001    | 722     | 751        | 401    | (7,180)            |       | 1,865,215    |
| Benefits and Expenses:  |                       |          |          |        |         |          |         |         |          |         |            |        |                    |       |              |
| Benefits and Loss Related (Payments)                          |                       |          |          |        |         |          |         |         |          |         |            |        |                    |       |              |
| Recoveries  | (965,953)             | (6,970)  | 207      | (2)    | 370     | 131      | (7)     | 904     | (1)      | (132)   | (11,046)   | (37)   | -                  | -     | (982,536)    |
| Commissions and Expense (Payments)                            |                       |          |          |        |         |          |         |         |          |         |            |        |                    |       |              |
| Recoveries  | (797,812)             | (2,946)  | -        | 146    | -       | -        | 305     | 17      | 380      | 372     | 1,297      | 129    | -                  | -     | (798,112)    |
| Dividends Paid to Policyholders                               | (679)                 | -        | -        | -      | -       | -        | -       | -       | -        | -       | -          | -      | -                  | -     | (679)        |
| Federal Income Tax (Paid) Recovered                           | (33,288)              | 260      | -        | -      | -       | -        | -       | 9       | -        | -       | (119)      | -      | -                  | -     | (33,138)     |
| Cash Used for Benefits and Expenses                           | (1,797,732)           | (9,656)  | 207      | 144    | 370     | 131      | 298     | 930     | 379      | 240     | (9,868)    | 92     | -                  | -     | (1,814,465)  |
| Net Cash Provided (Used) by Operations                        | 66,233                | (6,768)  | 161      | 301    | 1,144   | 640      | 928     | 1,573   | 1,380    | 962     | (9,117)    | 493    | (7,180)            |       | 50,750       |
| <b>Cash Provided (Used) by Investments:</b>                   |                       |          |          |        |         |          |         |         |          |         |            |        |                    |       |              |
| Cash Provided from Investments Sold, Matured or Repaid:       |                       |          |          |        |         |          |         |         |          |         |            |        |                    |       |              |
| Bonds and Notes   | 131,607               | 1,066    | 1,854    | -      | 1,714   | 4,693    | 3,588   | 1,349   | 3,540    | 577     | 14,304     | 21     | -                  | -     | 164,313      |
| Stocks  | 94,918                | -        | -        | -      | -       | 500      | -       | -       | -        | -       | -          | -      | -                  | -     | 95,418       |
| Other Invested Assets   | 2,577                 | 3        | -        | -      | -       | -        | -       | -       | 1        | -       | 4          | -      | -                  | -     | 2,585        |
| Total Cash Provided from Investments Sold, Matured or Repaid  | 229,102               | 1,069    | 1,854    | -      | 1,714   | 5,193    | 3,588   | 1,349   | 3,541    | 577     | 14,308     | 21     | -                  | -     | 262,316      |
| Cash Used to Acquire Investments:                             |                       |          |          |        |         |          |         |         |          |         |            |        |                    |       |              |
| Bonds and Notes   | (38,647)              | -        | -        | -      | (1,245) | (1,109)  | (3,336) | (1,495) | (373)    | -       | (7,428)    | (314)  | -                  | -     | (53,947)     |
| Stocks  | (209,654)             | -        | -        | -      | -       | -        | -       | -       | -        | -       | -          | -      | -                  | -     | (209,654)    |
| Other Invested Assets   | (13,088)              | -        | -        | -      | -       | -        | -       | (10)    | -        | -       | -          | -      | -                  | -     | (13,098)     |
| Total Cash Used to Acquire Investments                        | (261,389)             | -        | -        | -      | (1,245) | (1,109)  | (3,336) | (1,505) | (373)    | -       | (7,428)    | (314)  | -                  | -     | (276,699)    |
| Net Cash Provided (Used) by Investments                       | (32,287)              | 1,069    | 1,854    | -      | 469     | 4,084    | 252     | (156)   | 3,168    | 577     | 6,880      | (293)  | -                  | -     | (14,383)     |
| <b>Cash Provided (Used) by Financing and Other Sources:</b>   |                       |          |          |        |         |          |         |         |          |         |            |        |                    |       |              |
| Other Cash Provided (Applied):                                |                       |          |          |        |         |          |         |         |          |         |            |        |                    |       |              |
| Dividends to Shareholder                                      | (106,000)             | -        | 81       | -      | (1,400) | -        | (1,100) | (1,100) | (1,800)  | (1,100) | (680)      | -      | 7,180              | (G)   | (106,000)    |
| Capital and Surplus Paid In                                   | -                     | 3,331    | (235)    | (301)  | (491)   | (4,462)  | (33)    | (911)   | (280)    | (272)   | (3,436)    | 359    | -                  | -     | 81           |
| Other Cash Provided (Applied)                                 | 13,001                | -        | -        | -      | -       | -        | -       | -       | -        | -       | -          | -      | -                  | -     | 6,270        |
| Net Cash Provided (Used) by Financing and Other Sources       | (92,999)              | 3,331    | (154)    | (301)  | (1,891) | (4,462)  | (1,133) | (2,011) | (2,080)  | (1,372) | (4,116)    | 359    | 7,180              |       | (99,649)     |
| <b>Increase (Decrease) in Cash and Short-term Investments</b> |                       |          |          |        |         |          |         |         |          |         |            |        |                    |       |              |
| Cash and Short-term Investments at Beginning of Year          | 31,924                | 3,750    | 472      | 324    | 308     | 1,116    | 464     | 924     | 793      | 390     | 1,011      | 376    | -                  | -     | 41,852       |
| Cash and Short-term Investments at End of Year                | \$ (27,129)           | \$ 1,382 | \$ 2,333 | \$ 324 | \$ 30   | \$ 1,378 | \$ 511  | \$ 330  | \$ 3,261 | \$ 557  | \$ (5,342) | \$ 935 | \$ -               | \$ -  | \$ (21,430)  |

See Accompanying Independent Auditors' Report.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
CONSOLIDATING ENTRIES AT DECEMBER 31, 2006 AND 2005

Consolidating entry (A) eliminates TUIC's investment in its wholly-owned consolidated subsidiaries. Entry (B) eliminates intercompany accounts between TUIC and its affiliates. Entry (C) eliminates a related party intercompany transaction between Trinity Lloyds and TUIC. Entry (D) eliminates intercompany reinsurance balances between TUIC and its affiliates. Entry (E) eliminates a dividend declared but not paid by TUIK to its parent TUIC. Entry (F) nets current tax recoverable with accrued and deferred income taxes. Entry (G) eliminates dividends received by TUIC from its consolidated subsidiaries.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
SCHEDULE 1 – SUPPLEMENTAL CONSOLIDATED SUMMARY INVESTMENT SCHEDULE  
AT DECEMBER 31, 2006  
(Dollars in Thousands)

|  | Gross Investment Holdings |                 | Admitted Assets Per<br>Annual Statement |                 |
|--|---------------------------|-----------------|---|-----------------|
|  | Amount                    | Percentage      | Amount                                  | Percentage      |
| <b>Bonds:</b>  |                           |                 |   |                 |
| U.S. Treasury Securities   | \$ 26,391                 | 0.91 %          | \$ 26,391                               | 0.91 %          |
| U.S. Government sponsored agencies   | 126,732                   | 4.39            | 126,732                                 | 4.39            |
| Securities issued by states, territories and possessions and political subdivisions in the U.S.:   |                           |                 |   |                 |
| U.S. states and territories general obligations  | 901,254                   | 31.22           | 901,254                                 | 31.22           |
| Political Subdivisions of U.S. States, territories general obligations                             | 149,183                   | 5.17            | 149,183                                 | 5.17            |
| Revenue and assessment obligations   | 50,434                    | 1.75            | 50,434                                  | 1.75            |
| Mortgage-backed securities:  |                           |                 |   |                 |
| Pass-through securities:   |                           |                 |   |                 |
| Other Pass through Securities  | 8,693                     | 0.30            | 8,693                                   | 0.30            |
| Other mortgage-backed securities:  |                           |                 |   |                 |
| Other mortgage-backed securities collateralized by MBS issued or guaranteed by FNMA, FHLMC or GNMA | 855                       | 0.03            | 855                                     | 0.03            |
| Other Debt Securities (excluding short term):  |                           |                 |   |                 |
| Unaffiliated domestic securities   | 575                       | 0.02            | 575                                     | 0.02            |
| Equity Interests:  |                           |                 |   |                 |
| Preferred Stocks:  |                           |                 |   |                 |
| Unaffiliated   | 57,560                    | 1.99            | 57,560                                  | 1.99            |
| Common Stocks:   |                           |                 |   |                 |
| Affiliated   | 185,533                   | 6.43            | 185,533                                 | 6.43            |
| Unaffiliated   | 1,149,295                 | 39.81           | 1,149,295                               | 39.81           |
| Real Estate Investments:   |                           |                 |   |                 |
| Property held for production of income   | 1,322                     | 0.05            | 1,322                                   | 0.05            |
| Mortgage Loans   | 45,041                    | 1.56            | 45,041                                  | 1.56            |
| Cash and Short Term Investments  | 76,734                    | 2.66            | 76,734                                  | 2.66            |
| Other Invested Assets  | 107,243                   | 3.71            | 107,243                                 | 3.71            |
| <b>Total Invested Assets</b>   | <b>\$ 2,886,845</b>       | <b>100.00 %</b> | <b>\$ 2,886,845</b>                     | <b>100.00 %</b> |

See Accompanying Independent Auditors' Report.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
 SCHEDULE 2 – SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE  
 AT DECEMBER 31, 2006  
 (Dollars in Thousands)

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. The Company's total admitted assets as reported on Page 3 of these financial statements. \$3,352,411
2. Ten largest exposures to a single issuer/borrower/investment.

| <u>1</u>                          | <u>2</u>   | <u>3</u>      | <u>4</u>                                       |
|-----------------------------------|--|---------------|--|
| <u>Issuer</u>                     | <u>Investment<br/>Category/Description of<br/>Exposure</u> | <u>Amount</u> | <u>Percentage of Total<br/>Admitted Assets</u> |
| 2.01 Northrop Grumman             | ComStk-Ind.&Misc.  | \$ 406,235    | 12.12%   |
| 2.02 Internec                     | ComStk-Ind.&Misc.  | \$ 307,204    | 9.16%  |
| 2.03 Tennenbaum Cap. Ptnrs LLP    | Other Invested Assets                                      | \$ 80,253     | 2.39%  |
| 2.04 Valley Group, Inc.           | ComStk-Affiliated  | \$ 59,876     | 1.79%  |
| 2.05 Harris/Nesbitt Burns         | Short-term   | \$ 56,000     | 1.67%  |
| 2.06 Ishares MSCI EAFE Index Fund | ComStk-Ind.&Misc.  | \$ 55,750     | 1.66%  |
| 2.07 Washington State, G.O.       | Bonds – States   | \$ 51,016     | 1.52%  |
| 2.08 Pennsylvania State, G.O.     | Bonds – States   | \$ 48,871     | 1.46%  |
| 2.09 New Jersey State, G.O.       | Bonds – States   | \$ 45,591     | 1.36%  |
| 2.10 One East Wacker Corp.        | Mortgage Loans   | \$ 45,000     | 1.34%  |

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

| <u>Bonds</u> |        | <u>1</u>     | <u>2</u> | <u>Preferred Stocks</u> |        | <u>3</u>  | <u>4</u> |
|--------------|--------|--------------|----------|-------------------------|--------|-----------|----------|
| 3.01         | NAIC-1 | \$ 1,329,348 | 39.65%   | 3.07                    | P/RP-1 | \$ 32,708 | 0.98%    |
| 3.02         | NAIC-2 | \$ 104       | 0.00%    | 3.08                    | P/RP-2 | \$ 21,093 | 0.63%    |
| 3.03         | NAIC-3 | \$           | %        | 3.09                    | P/RP-3 | \$ 2,740  | 0.08%    |
| 3.04         | NAIC-4 | \$           | %        | 3.10                    | P/RP-4 | \$        | %        |
| 3.05         | NAIC-5 | \$           | %        | 3.11                    | P/RP-5 | \$ 1,019  | 0.03%    |
| 3.06         | NAIC-6 | \$ 44        | 0.00%    | 3.12                    | P/RP-6 | \$        | %        |

4. Assets held in foreign investments:

- 4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?  
 Yes [X] No [ ]
- 4.02 Total admitted assets held in foreign investments. \$..... %
- 4.03 Foreign-currency-denominated investments. \$..... %
- 4.04 Insurance liabilities denominated in that same foreign currency \$..... %

If response, to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
 SCHEDULE 2 – SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE  
 AT DECEMBER 31, 2006  
 (Dollars in Thousands)

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

|                                      | <u>1</u> | <u>2</u> |
|--------------------------------------|----------|----------|
| 5.01 Countries rated NAIC-1          | \$.....  | .....%   |
| 5.02 Countries rated NAIC-2          | \$.....  | .....%   |
| 5.03 Countries rated NAIC-3 or below | \$.....  | .....%   |

6. Two largest foreign investment exposures to in a single country, categorized by the country's NAIC sovereign rating:

|   | <u>1</u> | <u>2</u> |
|---|----------|----------|
| <u>Countries rated NAIC – 1:</u>          |          |          |
| 6.01 Country:                             | \$.....  | .....%   |
| 6.02 Country:                             | \$.....  | .....%   |
| <u>Countries rated NAIC – 2:</u>          |          |          |
| 6.03 Country:                             | \$.....  | .....%   |
| 6.04 Country:                             | \$.....  | .....%   |
| <u>Countries rated NAIC – 3 or below:</u> |          |          |
| 6.05 Country:                             | \$.....  | .....%   |
| 6.06 Country:                             | \$.....  | .....%   |

7. Aggregate unhedged foreign currency exposure

|  | <u>1</u> | <u>2</u> |
|--|----------|----------|
|  | \$.....  | .....%   |

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

|  | <u>1</u> | <u>2</u> |
|--|----------|----------|
| 8.01 Countries rated NAIC – 1          | \$.....  | .....%   |
| 8.02 Countries rated NAIC – 2          | \$.....  | .....%   |
| 8.03 Countries rated NAIC – 3 or below | \$.....  | .....%   |

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

|   | <u>1</u> | <u>2</u> |
|---|----------|----------|
| <u>Countries rated NAIC – 1:</u>          |          |          |
| 9.01 Country:                             | \$.....  | .....%   |
| 9.02 Country:                             | \$.....  | .....%   |
| <u>Countries rated NAIC – 2:</u>          |          |          |
| 9.03 Country:                             | \$.....  | .....%   |
| 9.04 Country:                             | \$.....  | .....%   |
| <u>Countries rated NAIC – 3 or below:</u> |          |          |
| 9.05 Country:                             | \$.....  | .....%   |
| 9.06 Country:                             | \$.....  | .....%   |

See Accompanying Independent Auditors' Report.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
 SCHEDULE 2 – SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE  
 AT DECEMBER 31, 2006  
 (Dollars in Thousands)

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

|       | <u>1</u>      | <u>2</u>           | <u>3</u> | <u>4</u> |
|-------|---------------|--------------------|----------|----------|
|       | <u>Issuer</u> | <u>NAIC Rating</u> |          |          |
| 10.01 | .....         | .....              | \$.....  | .....%   |
| 10.02 | .....         | .....              | \$.....  | .....%   |
| 10.03 | .....         | .....              | \$.....  | .....%   |
| 10.04 | .....         | .....              | \$.....  | .....%   |
| 10.05 | .....         | .....              | \$.....  | .....%   |
| 10.06 | .....         | .....              | \$.....  | .....%   |
| 10.07 | .....         | .....              | \$.....  | .....%   |
| 10.08 | .....         | .....              | \$.....  | .....%   |
| 10.09 | .....         | .....              | \$.....  | .....%   |
| 10.10 | .....         | .....              | \$.....  | .....%   |

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

|  | <u>1</u> | <u>2</u> |   |
|--|----------|----------|---|
| 11.02 Total admitted assets held in Canadian Investments | \$.....  | _____    | % |
| 11.03 Canadian-currency-denominated investments          | \$.....  | _____    | % |
| 11.04 Canadian-denominated insurance liabilities         | \$.....  | _____    | % |
| 11.05 Unhedged Canadian currency exposure                | \$.....  | _____    | % |

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 12.01 is yes, responses are detail is not required for the remainder of Interrogatory 12.

|  | <u>1</u> | <u>2</u> | <u>3</u> |
|--|----------|----------|----------|
| 12.02 Aggregate statement value of investments with contractual sales restrictions |          | \$.....  | .....%   |
| <u>Largest 3 investments with contractual sales restrictions:</u>                  |          |          |          |
| 12.03  | .....    | \$.....  | .....%   |
| 12.04  | .....    | \$.....  | .....%   |
| 12.05  | .....    | \$.....  | .....%   |

See Accompanying Independent Auditors' Report.

**TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES**  
**SCHEDULE 2 – SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE**  
**AT DECEMBER 31, 2006**  
**(Dollars in Thousands)**

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

|       | <u>1</u>                              | <u>2</u>   | <u>3</u> |
|-------|---------------------------------------|------------|----------|
|       | <u>Name of Issuer</u>                 |            |          |
| 13.02 | Northrop Grumman                      | \$ 406,235 | 12.12%   |
| 13.03 | Intermec Inc.                         | \$ 307,204 | 9.16%    |
| 13.04 | Valley Group, Inc.                    | \$ 59,876  | 1.79%    |
| 13.05 | Ishares MSCI EAFE Index Fund          | \$ 55,750  | 1.66%    |
| 13.06 | Baker Hughes, Inc.                    | \$ 41,130  | 1.23%    |
| 13.07 | Financial Indemnity Company           | \$ 31,984  | 0.95%    |
| 13.08 | Citigroup, Inc.                       | \$ 31,469  | 0.94%    |
| 13.09 | Unitrin Auto & Home Insurance Company | \$ 25,688  | 0.77%    |
| 13.10 | Union National Fire Insurance Company | \$ 24,598  | 0.73%    |
| 13.11 | Altria Group, Inc.                    | \$ 19,310  | 0.58%    |

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

|       | <u>1</u>  | <u>2</u> | <u>3</u> |
|-------|---|----------|----------|
| 14.02 | Aggregate statement value of investments held in nonaffiliated, privately placed equities | \$ ..... | .....%   |
|       | <u>Largest 3 investments held in nonaffiliated, privately placed equities:</u>            |          |          |
| 14.03 | .....   | \$ ..... | .....%   |
| 14.04 | .....   | \$ ..... | .....%   |
| 14.05 | .....   | \$ ..... | .....%   |

See Accompanying Independent Auditors' Report.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
 SCHEDULE 2 – SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE  
 AT DECEMBER 31, 2006  
 (Dollars in Thousands)

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes  No

If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

|  | <u>1</u> | <u>2</u> | <u>3</u> |
|--|----------|----------|----------|
| 15.02 Aggregate statement value of investments held in general partnership interests | \$ ..... |          | .....%   |

Largest 3 investments in general partnership interests:

|             |          |  |        |
|-------------|----------|--|--------|
| 15.03 ..... | \$ ..... |  | .....% |
| 15.04 ..... | \$ ..... |  | .....% |
| 15.05 ..... | \$ ..... |  | .....% |

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes  No

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

|   | <u>1</u> | <u>2</u> | <u>3</u> |
|---|----------|----------|----------|
| <u>Type (Residential, Commercial, Agricultural)</u> |          |          |          |
| 16.02 .....   | \$ ..... |          | .....%   |
| 16.03 .....   | \$ ..... |          | .....%   |
| 16.04 .....   | \$ ..... |          | .....%   |
| 16.05 .....   | \$ ..... |          | .....%   |
| 16.06 .....   | \$ ..... |          | .....%   |
| 16.07 .....   | \$ ..... |          | .....%   |
| 16.08 .....   | \$ ..... |          | .....%   |
| 16.09 .....   | \$ ..... |          | .....%   |
| 16.10 .....   | \$ ..... |          | .....%   |
| 16.11 .....   | \$ ..... |          | .....%   |

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

|  |          | <u>Loans</u> |        |
|--|----------|--------------|--------|
| 16.12 Construction loans                           | \$ ..... |              | .....% |
| 16.13 Mortgage loans over 90 days past due         | \$ ..... |              | .....% |
| 16.14 Mortgage loans in the process of foreclosure | \$ ..... |              | .....% |
| 16.15 Mortgage loans foreclosed                    | \$ ..... |              | .....% |
| 16.16 Restructured mortgage loans                  | \$ ..... |              | .....% |

See Accompanying Independent Auditors' Report.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
 SCHEDULE 2 – SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE  
 AT DECEMBER 31, 2006  
 (Dollars in Thousands)

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

| Loan-to-Value    | Residential |          | Commercial |          | Agricultural |          |
|------------------|-------------|----------|------------|----------|--------------|----------|
|                  | <u>1</u>    | <u>2</u> | <u>3</u>   | <u>4</u> | <u>5</u>     | <u>6</u> |
| 17.01 above 95%  | \$ .....    | .....%   | \$ .....   | .....%   | \$ .....     | .....%   |
| 17.02 91% to 95% | \$ .....    | .....%   | \$ .....   | .....%   | \$ .....     | .....%   |
| 17.03 81% to 90% | \$ .....    | .....%   | \$ .....   | .....%   | \$ .....     | .....%   |
| 17.04 71% to 80% | \$ .....    | .....%   | \$ .....   | .....%   | \$ .....     | .....%   |
| 17.05 below 70%  | \$ .....    | .....%   | \$ .....   | .....%   | \$ .....     | .....%   |

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of in real estate:

18.01 Are assets held in real estate reported in less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

|             | Description |          |          |
|-------------|-------------|----------|----------|
|             | <u>1</u>    | <u>2</u> | <u>3</u> |
| 18.02 ..... | \$ .....    | .....%   | .....%   |
| 18.03 ..... | \$ .....    | .....%   | .....%   |
| 18.04 ..... | \$ .....    | .....%   | .....%   |
| 18.05 ..... | \$ .....    | .....%   | .....%   |
| 18.06 ..... | \$ .....    | .....%   | .....%   |

19. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

| Dollars in thousands   | At Year-end |          | At End of Each Quarter    |                           |                           |
|--|-------------|----------|---------------------------|---------------------------|---------------------------|
|  | <u>1</u>    | <u>2</u> | <u>1<sup>st</sup> Qtr</u> | <u>2<sup>nd</sup> Qtr</u> | <u>3<sup>rd</sup> Qtr</u> |
|  |             |          | <u>3</u>                  | <u>4</u>                  | <u>5</u>                  |
| 19.01 Securities lending agreements (do not include assets held as collateral for such transactions) | \$.....     | .....%   | \$.....                   | \$.....                   | \$.....                   |
| 19.02 Repurchase agreements  | \$ 56,000   | 1.67%    | \$ 40,300                 | \$ 58,700                 | \$ 183,600                |
| 19.03 Reverse repurchase agreements  | \$.....     | .....%   | \$.....                   | \$.....                   | \$.....                   |
| 19.04 Dollar repurchase agreements   | \$.....     | .....%   | \$.....                   | \$.....                   | \$.....                   |
| 19.05 Dollar reverse repurchase agreements   | \$.....     | .....%   | \$.....                   | \$.....                   | \$.....                   |

See Accompanying Independent Auditors' Report.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
SCHEDULE 2 – SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES SCHEDULE  
AT DECEMBER 31, 2006  
(Dollars in Thousands)

20. Amounts and percentages of the reporting entity's total admitted assets indicated below for warrants not attached to other financial instruments, options, caps, and floors:

|                         | <u>Owned</u> |          | <u>Written</u> |          |
|-------------------------|--------------|----------|----------------|----------|
|                         | <u>1</u>     | <u>2</u> | <u>3</u>       | <u>4</u> |
| 20.01 Hedging           | \$.....      | .....%   | \$.....        | .....%   |
| 20.02 Income generation | \$.....      | .....%   | \$.....        | .....%   |
| 20.03 Other             | \$.....      | .....%   | \$.....        | .....%   |

21. Amounts and percentages indicated below of the reporting entity's total admitted assets of potential exposures for collars, swaps, and forwards:

|                         | <u>At Year-end</u> |          | <u>At End of Each Quarter</u> |                           |                           |
|-------------------------|--------------------|----------|-------------------------------|---------------------------|---------------------------|
|                         | <u>1</u>           | <u>2</u> | <u>1<sup>st</sup> Qtr</u>     | <u>2<sup>nd</sup> Qtr</u> | <u>3<sup>rd</sup> Qtr</u> |
|                         | <u>1</u>           | <u>2</u> | <u>3</u>                      | <u>4</u>                  | <u>5</u>                  |
| 21.01 Hedging           | \$.....            | .....%   | \$.....                       | \$.....                   | \$.....                   |
| 21.02 Income generation | \$.....            | .....%   | \$.....                       | \$.....                   | \$.....                   |
| 21.03 Replications      | \$.....            | .....%   | \$.....                       | \$.....                   | \$.....                   |
| 21.04 Other             | \$.....            | .....%   | \$.....                       | \$.....                   | \$.....                   |

22. Amounts and percentages indicated below of the reporting entity's total admitted assets of potential exposures for futures contracts:

|                         | <u>At Year-end</u> |          | <u>At End of Each Quarter</u> |                           |                           |
|-------------------------|--------------------|----------|-------------------------------|---------------------------|---------------------------|
|                         | <u>1</u>           | <u>2</u> | <u>1<sup>st</sup> Qtr</u>     | <u>2<sup>nd</sup> Qtr</u> | <u>3<sup>rd</sup> Qtr</u> |
|                         | <u>1</u>           | <u>2</u> | <u>3</u>                      | <u>4</u>                  | <u>5</u>                  |
| 22.01 Hedging           | \$.....            | .....%   | \$.....                       | \$.....                   | \$.....                   |
| 22.02 Income generation | \$.....            | .....%   | \$.....                       | \$.....                   | \$.....                   |
| 22.03 Replications      | \$.....            | .....%   | \$.....                       | \$.....                   | \$.....                   |
| 22.04 Other             | \$.....            | .....%   | \$.....                       | \$.....                   | \$.....                   |

See Accompanying Independent Auditors' Report.

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
SCHEDULE 3 – SUPPLEMENTAL REINSURANCE INTERROGATORIES SCHEDULE  
AT DECEMBER 31, 2006  
(Dollars in Thousands)

9.1 - Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 3% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 3% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features that would have similar results:

- a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
- b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
- c) Aggregate stop loss reinsurance coverage;
- d) An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party;
- e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
- f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

YES [ ] NO [ X ]

9.2 - Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

- a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
- b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.

YES [ ] NO [ X ]

TRINITY UNIVERSAL INSURANCE COMPANY AND SUBSIDIARIES AND AFFILIATES  
 SCHEDULE 3 – SUPPLEMENTAL REINSURANCE INTERROGATORIES SCHEDULE  
 AT DECEMBER 31, 2006  
 (Dollars in Thousands)

9.3 - If response to both 9.1 and 9.2 is No, responses are not required for the remainder of 9.3 (A-C) below.

A) The aggregate financial statement impact gross of all such ceded reinsurance contracts are as follows:

|                                  | As Reported | Reinsurance<br>Effect | Restated<br>Without<br>Reinsurance |
|----------------------------------|-------------|-----------------------|------------------------------------|
| Admitted Assets                  | \$ -        | \$ -                  | \$ -                               |
| Liabilities                      | \$ -        | \$ -                  | \$ -                               |
| Surplus as Regards Policyholders | \$ -        | \$ -                  | \$ -                               |
| Net Income                       | \$ -        | \$ -                  | \$ -                               |

B) A summary of the contract terms of such reinsurance contracts is(are) as follows:

C) A brief discussion of management's principle objectives in entering into such reinsurance contract(s) including the economic purpose to be achieved, is as follows:

9.4 - Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or under multiple contract with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

- a) Accounted for that contract as reinsurance (either prospective or retroactive) under SSAP and as a deposit under GAAP; or
- b) Accounted for that contract as reinsurance under GAAP and as a deposit under SSAP?

YES [ ] NO [ X ]

If response is yes, please provide an explanation why the contract(s) is treated differently for GAAP and SSAP below.

See Accompanying Independent Auditors' Report.