AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY

Statutory Statements of Admitted Assets, Liabilities, and Surplus and Schedules

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Directors
American Manufacturers Mutual Insurance Company:

We have audited the accompanying statutory statements of admitted assets, liabilities, and surplus of American Manufacturers Mutual Insurance Company (the Company) as of December 31, 2008 and 2007. These statutory financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statutory financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement. An audit includes 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 statutory financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statutory financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in note 2 to the statutory financial statements, the Company prepared these statutory financial statements using accounting practices prescribed or permitted by the Illinois Department of Financial and Professional Regulation-Division of Insurance (Division of Insurance) which practices differ from U.S. generally accepted accounting principles. The effects on the statutory financial statements of the variances between the statutory accounting practices and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of American Manufacturers Mutual Insurance Company as of December 31, 2008 and 2007.

Also, in our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of American Manufacturers Mutual Insurance Company as of December 31, 2008 and 2007, on the basis of accounting described in note 2.

Our audits were made for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The supplementary information included on the Supplemental Schedule of Investments, Supplemental Schedule of Investment Risk Interrogatories, and Supplemental Schedule of Reinsurance Risk Interrogatories is presented for purposes of additional analysis and is not a required part of the basic statutory financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic statutory financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole.

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

The accompanying statutory financial statements and supplementary information have been prepared assuming that the Company will continue as a going concern. The Company is exposed to credit risk related to reinsurance recoverables as discussed in notes 5 and 9 and operating risk related to administrative sharing agreements, including a shared management group, as discussed in note 7 with Lumbermens Mutual Casualty Company (LMC), an affiliated company. As discussed in note 8 to the statutory financial statements, the Division of Insurance imposes risk-based capital (RBC) requirements on insurance enterprises, including the Company. As of December 31, 2008 and 2007, the Company's total adjusted capital, as reported in the 2008 and 2007 Annual Statements filed with the Division of Insurance, was above any action levels based on the RBC calculation required by the Division of Insurance; however, excluding the benefit of prescribed or permitted accounting practices, LMC's total adjusted capital is at the "mandatory control level" as of December 31, 2008 and 2007. At the "authorized control level" and the "mandatory control level", the Division of Insurance has substantial authority to exercise control over LMC, its subsidiaries and affiliates, including the Company. The Division of Insurance is mandated to place a company at the "mandatory control level" under its control, except where, as is the case with LMC, such Company is a property and casualty insurance company that is no longer writing new business and is running off its existing business, in which case the Director of the Division of Insurance has discretion to allow the continued run-off. In the first half of 2003, as a result of a combination of various business factors including certain ratings downgrades and LMC's deteriorating statutory surplus, LMC, its subsidiaries, and affiliates, including the Company, substantially ceased underwriting activities. Since July 2003, the Company and most of its subsidiaries and affiliates have been subject to a Corrective Order by the Division of Insurance not to write any new or renewal business except as necessary to comply with contractual commitments or as expressly permitted by the Division of Insurance. On March 19, 2004, LMC, along with the Company, submitted to the Division of Insurance its commercial run-off plan which was approved on June 9, 2004.

The Division of Insurance could seek to place LMC, its subsidiaries, and affiliates, in a formal proceeding (conservatorship or receivership, rehabilitation or liquidation) at any time based on LMC's financial condition or operating performance. This risk of a proceeding would be further increased if LMC fails to execute successfully on its commercial run-off plan, if LMC fails to have sufficient liquid assets to meet its current obligations, or if LMC's reported statutory liabilities at any time would exceed its reported statutory assets as discussed in note 8 to the statutory financial statements.

There are a number of factors that could adversely affect the Company's surplus and liquidity position and its adequacy through future years. There can be no assurance that LMC will be successful to the extent necessary to avoid a negative surplus in future years. In addition, as of December 31, 2008, LMC has $614.5 million of invested assets that are encumbered by being on deposit or held in trust or escrow arrangements and access to these amounts is subject to certain limitations.

The matters discussed in the preceding paragraphs raise substantial doubt about the ability of the Company to continue as a going concern. The ability of the Company to continue as a going concern is dependent on many factors, the most important of which is regulatory action, including the continued acceptance of LMC's commercial run-off plan and the continued permission to apply the aforementioned prescribed or permitted accounting practices. Management's plans in regards to these matters are described throughout the notes to the statutory financial statements. The accompanying statutory financial statements and the supplementary information do not include any adjustments that might result from the outcome of this uncertainty.

KPMG LLP

May 26, 2009

AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY

Statutory Statements of Admitted Assets, Liabilities, and Surplus

December 31, 2008 and 2007

Admitted Assets		2008	2007
Cash, cash equivalents, and short-term investments	$	1,462,023	1,561,330
Bonds		9,726,103	9,238,091
Total cash and invested assets		11,188,126	10,799,421
Investment income due and accrued		138,838	142,759
Total admitted assets	$	11,326,964	10,942,180
Liabilities and Surplus			
Liabilities:			
Payable to affiliate	$	214,790	60,019
Other expenses payable		900	900
Total liabilities		215,690	60,919
Surplus:			
Guaranty fund		1,500,000	1,500,000
Unassigned surplus		9,611,274	9,381,261
Total surplus		11,111,274	10,881,261
Total liabilities and surplus	$	11,326,964	10,942,180

See accompanying notes to statutory statements of admitted assets, liabilities, and surplus.

(1) Business Operations

American Manufacturers Mutual Insurance Company (the Company) is a mutual property and casualty insurance company domiciled in the State of Illinois. Under common management with Lumbermens Mutual Casualty Company (LMC), the Company cedes 100% of its premiums, losses, loss adjustment expenses (LAE), and underwriting expenses to LMC. LMC is the lead company of a group of insurers and affiliates, now in run-off status, which have operated under the trade names of Kemper and the Kemper Insurance Companies.

The Company's risk-based capital (RBC) ratio exceeds any regulatory action levels; however, LMC's RBC ratio fell below the "authorized control level" as of December 31, 2002, and has remained below that level to date (see note 8). Because of the Company's heavy reliance on reinsurance recoveries and operations support from LMC, the regulatory and financial status of LMC has had and will continue to have a significant impact on the Company's operations.

(2) Basis of Presentation and Summary of Significant Accounting Policies

The accompanying statutory statements of admitted assets, liabilities, and surplus (the statutory balance sheets) have been prepared in accordance with the National Association of Insurance Commissioners' (the NAIC) *Accounting Practices and Procedures Manual* (the Manual), and in conformity with prescribed accounting practices (including accounting allowances under Corrective Orders) or permitted accounting practices by the Illinois Department of Financial and Professional Regulation – Division of Insurance (the Division of Insurance), which vary in some respects from U.S. generally accepted accounting principles (GAAP). The most significant of these differences are as follows:

- the costs related to acquiring business are charged to income when incurred rather than deferred and amortized over the life of the related insurance policy;
- investments in bonds are generally carried at amortized cost, while under GAAP, such fixed maturity investments are designated at purchase as held-to-maturity, available-for-sale, or trading. Held-to-maturity investments are reported at amortized cost. Available-for-sale and trading investments are reported at fair value with unrealized gains and losses reported in operations for those designated as trading and as a separate component of stockholder's equity, net of applicable deferred income taxes, for those designated as available-for-sale;
- assets are included in the statutory balance sheets at admitted asset value, and nonadmitted assets are excluded through a direct charge against surplus, while under GAAP, such assets would be recognized at the lower of cost or net realizable value;
- the realizability of deferred tax assets under GAAP is evaluated utilizing a "more likely than not" standard. A valuation allowance is established for deferred tax assets deemed not realizable using this standard. Under statutory accounting principles, the realizability of deferred tax assets is determined utilizing an admissibility test outlined in Statement of Statutory Accounting Principles (SSAP) No. 10, *Income Taxes*. Any gross deferred tax assets determined not to be realizable are nonadmitted for statutory accounting purposes. Additionally, changes in the balances of deferred tax assets and liabilities result in increases or decreases in net income under GAAP, whereas under statutory accounting principles, these changes are charged or credited to surplus;

- ceded reinsurance balances are netted against direct and assumed balances on the statutory balance sheets rather than shown gross as under GAAP;
- liabilities for losses and LAE are discounted using discount rates prescribed by the Division of Insurance; and

The effects of such differences between these statutory accounting practices and GAAP have not been determined but are presumed to be material.

Invested Assets and Related Income

Bonds, cash equivalents, and short-term investments are valued at amortized cost. The amortized cost of bonds is adjusted for amortization of premiums and accretion of discounts using a level effective yield method to maturity, or in the case of loan-backed securities, over the estimated life of the security. Amortization of the discount or premium from loan-backed securities is recognized retrospectively based on the estimated timing and amount of prepayments of the underlying assets and is adjusted to reflect differences which arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated. Prepayment assumptions used for loan-backed securities are derived using an external securities information service and are consistent with the current interest rate and economic environment.

The Company defines cash and cash equivalents as cash in banks or short-term, highly liquid investments that are both readily convertible to cash and have original maturities of three months or less. The Company considers all other highly liquid investments with an original maturity of one year or less to be short-term investments.

The Company does not accrue interest income on fixed maturities deemed to be impaired on an other-than-temporary basis when it determines that the likelihood of collection of interest is doubtful.

Premium Balances

Premiums are earned on a daily pro rata basis over the term of the policies. Unearned premiums are stated after deduction for premiums ceded to reinsurers. Premiums received in advance are recorded as a liability and are not considered income until due. Agents' balances and uncollected premiums receivable are recorded at the effective date of the underlying contract or in the case of audit premiums in accordance with the terms of the underlying contracts. The Company regularly evaluates the collectibility of all receivables. When the Company determines it is probable a receivable balance will not be collected, such amount is written off. The Company anticipates investment income as a factor in determining the premium deficiency liability. As of both December 31, 2008 and 2007, the Company did not require an ending premium deficiency liability.

Liability for Losses and Loss Adjustment Expenses

The Company records liabilities for unpaid claims, losses, and related LAE based upon management's best estimate of aggregate case-basis estimates for losses reported, estimates received from ceding reinsurers, and estimates of incurred but not reported (IBNR) losses related to direct and assumed business, less amounts ceded to reinsurers. Liabilities for unreported losses are established using various statistical and actuarial techniques reflecting historical patterns of development of paid and reported losses adjusted for current trends.

Because the ultimate settlement of claims is subject to future events, no single loss or LAE liability can be considered accurate with certainty. The Company's analysis of the reasonableness of loss or LAE liability estimates includes an analysis of the amount of variability in the estimate. The Company develops its estimate considering a range of liability estimates bounded by a high and a low estimate. The high and low ends of the range do not correspond to an absolute best-and-worst case scenario of ultimate settlements because such estimates may be the result of unlikely assumptions. Management's best estimate, therefore, does not include the set of all possible outcomes but only those outcomes that are considered reasonable.

Management believes the liabilities for losses and LAE are adequate to cover the ultimate liability; however, due to the underlying risks and high degree of uncertainty associated with the determination of the liability for losses, such estimates may be more or less than the amounts ultimately paid when the claims are settled. In the event reinsurance companies are unable to pay their portion of any claim under reinsured policies, the Company would remain liable for such payments.

Federal Income Taxes

The Company's federal income tax return is not consolidated with any other entities. Federal income taxes are charged to operations based on income that is currently taxable. The Company provides, as a component of surplus, an estimate of deferred income tax assets and liabilities, which reflect the expected future tax consequences of unrealized capital gains or losses and the temporary differences generated between statutory accounting and the tax bases of assets and liabilities that are anticipated to reverse within one year or can be recovered through loss carrybacks.

Nonadmitted Assets

Assets included in the statutory balance sheets are at admitted asset value. Certain assets designated as "nonadmitted assets" are excluded from the statutory balance sheets and are charged to unassigned surplus at December 31, 2008 and 2007 as follows:

		2008	2007
		(In thousands)	
Net deferred tax assets	$	88,459	88,551
Prepaid expenses		46	47
Total nonadmitted assets	$	88,505	88,598

Use of Estimates

The preparation of the statutory balance sheets requires management to make estimates and assumptions that affect the reported statutory balance sheet amounts as well as the disclosure of contingent assets and liabilities. Accordingly, actual results could differ from those estimates.

The Company's investments are primarily comprised of bonds. The evaluation of bonds for other than temporary impairments is subject to risks and uncertainties and is intended to determine whether declines in fair values of bonds should be recognized in current year earnings. The risk and uncertainties include changes in general economic conditions, the issuers' financial condition and future prospects, the effects of changes in interest rates or current spreads, and the expected recovery period. The Company's bonds include loan-backed securities and other securities subject to prepayment and call risk. Significant changes

in interest rates, defaults and recoveries affect the timing and amount of cash flows on such securities. In addition, the amortization of premium and accretion of discount for loan-backed securities is based on historical payment experience and estimates of the timing of future payments on the underlying loans. Actual payment experience will differ from original estimates and will result in adjustments to amortization or accretion recorded in future periods.

As further discussed in the accompanying notes to the statutory balance sheets, significant estimates and assumptions affect various provisions including losses and policyholder dividends. The liabilities for losses and LAE, although supported by actuarial analysis and other data, are ultimately based on management's reasoned expectations of future events. As further described in note 4, estimates of losses and LAE related to environmental and asbestos claims are also subject to a greater degree of uncertainty and variability.

(3) Invested Assets

Bonds

The fair values of the Company's bonds have been determined using quoted market prices from an orderly market at the reporting date for those or similar investments. If quoted market prices from an orderly market are not available, the fair value is determined using an income approach valuation technique (present value using the discount rate adjustment technique) that considers, among other things, interest rates, the issuer's credit spread, prepayments, performance of the underlying collateral for loan-backed securities and illiquidity by sector and maturity.

The statement value and fair value of bonds at December 31, 2008 and 2007 were as follows:

	2008			
	Statement value	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 4,834	106	—	4,940
State, political subdivision, and special revenue obligations	409	33	—	442
Debt securities issued by foreign governments	76	4	—	80
Corporate securities	1,022	5	(2)	1,025
Asset-backed securities	479	—	(10)	469
Mortgage-backed securities	2,906	13	(32)	2,887
Total bonds	$ 9,726	161	(44)	9,843

	2007			
	Statement value	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
	(In thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 5,191	98	—	5,289
State, political subdivision, and special revenue obligations	409	28	—	437
Debt securities issued by foreign governments	77	3	—	80
Corporate securities	1,040	1	(36)	1,005
Asset-backed securities	154	1	—	155
Mortgage-backed securities	2,367	8	(1)	2,374
Total bonds	$ 9,238	139	(37)	9,340

Bonds in an unrealized loss position are regularly reviewed for other-than-temporary declines in value. Factors considered in determining whether a decline is other-than-temporary include the length of time a bond has been in an unrealized loss position and the reasons for the decline in value. Assessments include judgments about an obligor's current and projected financial position, an issuer's current and projected ability to service and repay its debt obligations, the existence of, and realizable value for, any collateral backing the obligations, and the macro-economic and micro-economic outlooks for specific industries and issuers. Assessing the duration of loan-backed securities can also involve assumptions regarding underlying collateral such as prepayment rates, default and recovery rates, and third-party servicing abilities.

In performing its other-than-temporary impairment reviews, the Company, in consultation with its engaged portfolio manager, considers the relevant facts and circumstances relating to each investment and exercises judgment in determining whether a bond is other-than-temporarily impaired. Among the factors considered are whether the decline in fair value results from a change in the quality of the security itself, or from a downward movement in the market as a whole, and the likelihood of recovering the carrying value based on the current and short-term prospects of the issuer. Unrealized losses that are considered to be primarily the result of market conditions, such as increasing interest rates, unusual market volatility, or industry-related events, and where the Company also believes there exists a reasonable expectation of recovery and, furthermore, has the intent and ability to hold the investment until maturity or the market recovery, are usually determined to be temporary.

The Company defines its exposure to subprime mortgage related risk as being composed of all fixed income securities primarily backed by mortgage pools with the following characteristics calculated on a weighted average basis:

- First lien mortgages where borrowers have FICO scores less than 650
- First lien mortgages with loan-to-value ratios greater than 95%

- Second lien mortgages where borrowers have FICO scores less than 675
- Borrowers with less than conventional documentation of their income and/or net assets and FICO scores less than 650

At December 31, 2008, the Company did not have any subprime mortgage related risk exposure and during 2008, it did not recognize any other-than-temporary impairment losses related to subprime mortgages.

The bonds shown in the following table are all rated "A" or better; have minimal credit risk; and are subject to normal market fluctuations. Based on the Company's evaluation of the bonds shown in the table below and the Company's intent and ability to hold these securities until they mature or recover in value, the Company does not consider the bonds to be other-than-temporarily impaired at December 31, 2008.

The risks inherent in reviewing the impairment of any investment include the risk that market results may differ from expectations; facts and circumstances may change in the future and differ from estimates and assumptions; or the Company may later decide to sell the security and realize a loss as a result of changes in the specific facts and circumstances surrounding a bond, or the outlook for its industry sector or the economy.

As of December 31, 2008 and 2007, the gross unrealized losses that were in that position for more than twelve months and for less than twelve months were as follows:

	2008			2007		
	Number of issues	Gross unrealized losses	Fair value	Number of issues	Gross unrealized losses	Fair value
	(In thousands)					
Bonds in a loss position more than 12 months	—	$ —	—	—	$ —	—
Bonds in a loss position less than 12 months:						
Corporate securities	1	(2)	498	1	(36)	500
Asset-backed securities	3	(10)	469	—	—	—
Mortgage-backed securities	4	(32)	1,163	1	(1)	231
	8	(44)	2,130	2	(37)	731
Total bonds in a loss position	8	$ (44)	2,130	2	$ (37)	731

The following table sets forth the maturity aging schedule of bonds at December 31, 2008. The actual 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.

		Statement value	Fair value
		(In thousands)	
One year or less	$	5,334	5,438
Over one year through five years		598	607
Over five years through ten years		409	442
Securities not due at a single maturity date		3,385	3,356
Total bonds	$	9,726	9,843

At December 31, 2008 and 2007, bonds carried at $4.3 million were on deposit with government authorities as required by law.

There were no sales of investments in bonds prior to maturity during 2008 and 2007.

(4) Liability for Losses and Loss Adjustment Expenses

The Company establishes a liability for losses and LAE to cover its estimated ultimate liability for property and casualty losses and LAE with respect to reported claims and claims IBNR as of the end of each accounting period. Loss and LAE liabilities are estimates of what the Company expects the ultimate settlement and administration of claims will cost based on facts and circumstances then known, predictions of future events and estimates of future trends in claims severity and frequency, judicial theories of liability, and other factors. The inherent uncertainties of estimating insurance liabilities are generally greater for liability coverages or where judicial and political climates involving certain types of claims are changing, than for property coverages due to the longer periods of time (the tail) that elapse before a definitive determination of ultimate loss may be made.

As of December 31, 2008 and 2007, the Company had a gross liability for losses and LAE of $203.6 million and $231.7 million, respectively, which was carried at $0 net of reinsurance recoverables.

The Company's gross exposure to asbestos and environmental claims arises principally from general liability insurance contracts. Establishing liabilities for asbestos and environmental claims is subject to greater uncertainties than those presented by other types of claims. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insurers with potential exposure, and unresolved legal issues regarding policy coverage and the extent and timing of any such contractual liability. The legal issues concerning the interpretation of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered are complex. Courts have reached different and sometimes inconsistent conclusions as to when the loss occurred and what policies provided coverage; what claims are covered; whether there is an insured obligation to defend; how policy limits are determined; how policy exclusions are applied and interpreted; and whether clean-up costs are covered as insured property damage. Based on the foregoing, liabilities for asbestos and environmental claims cannot be estimated with traditional loss reserving techniques. Liabilities for losses including IBNR have been established when sufficient information has been developed to indicate the

involvement of a specific insurance policy. The Company estimates the impact of these exposures by establishing case basis liabilities on all known losses and LAE and by computing IBNR losses based on previous experience.

The gross asbestos liability for losses and LAE at December 31, 2008 and 2007 of $13.4 million and $18.6 million, respectively, includes IBNR liabilities in the amount of $2.8 million and $5.0 million gross of reinsurance recoverables, respectively, which was carried at $0 net of reinsurance recoverables for both years. These IBNR liabilities and the comparable amounts for prior years cover both losses and defense and cost containment expenses. The Company also includes adjusting and other expenses in the amounts shown above.

The gross environmental liability for losses and LAE at December 31, 2008 and 2007 of $5.9 million and $5.7 million, respectively, includes IBNR liabilities in the amount of $2.2 million and $1.5 million gross of reinsurance recoverables, respectively, which was carried at $0 net of reinsurance recoverables for both years. The development noted in the environmental reserves is primarily the result of an increase in case reserves on a few large accounts and an increase in future IBNR for accounts yet to be reported to Kemper. These IBNR liabilities and the comparable amounts for prior years cover both losses and defense and cost containment expenses. The Company also includes adjusting and other expenses in the amounts shown above.

(5) Reinsurance

The Company cedes 100% of its premiums, losses, and LAE to LMC pursuant to a quota share pooling agreement. All reinsurance recoverables from LMC are unsecured, and the Company remains primarily liable as the direct insurer on all risks reinsured if LMC is unable to pay such claims. As noted elsewhere in these notes, the regulatory and financial status of LMC has had and will continue to have a significant impact on the Company's operations.

LMC shares with the Company common management and directors. The Company has been one of the Kemper Insurance Companies for over 50 years. At December 31, 2003, LMC assumed most of the Company's liabilities, agreed to perform for the Company all insurance policy-related obligations including handling and paying claims, and issued an LMC policy to each holder of a policy ever issued by the Company, including any policy no longer in force but excluding any policy that is cut-through reinsured by a subsidiary of Unitrin, Inc. The additional LMC policy is substantively identical to the policy previously issued by the Company, although the LMC policy is nonparticipating. The additional LMC policy assures affected Company policyholders that their claims will be treated equally with the claims of other LMC policyholders not only in the event of a managed run-off of the Company and LMC, but also in the event of any insolvency proceedings with respect to the two companies. The Company remains liable for its policy liabilities in the event LMC does not comply with all the terms of the affected policies. In 2008 with the approval of the Division of Insurance, the Company and LMC agreed to clarify certain expense allocation arrangements of the 2003 agreements and pooling agreement amendment by basing the allocations on the relative surplus of the two companies for 2008 and future years. The allocated expenses, primarily consisting of joint board travel expenses, shared D&O insurance costs, annual audit fees, and certain licensing costs, totaled $2.2 million in 2008, with the Company's and LMC's respective shares being $0.2 million and $2.0 million. The 2008 agreement also made clear that consistent with their past practices, premium taxes remained the sole responsibility of LMC as the Company's 100% quota share reinsurer.

The Company's assumptions from and cessions to LMC were as follows:

		Assumed	Ceded
		(In thousands)	
2008:			
Unearned premiums	$	—	309
Outstanding losses and LAE (including IBNR)		—	203,636

		Assumed	Ceded
		(In thousands)	
2007:			
Unearned premiums	$	—	415
Outstanding losses and LAE (including IBNR)		—	231,708

LMC historically has reinsured portions of the risks it underwrote in an effort to control its exposure to losses and protect surplus. LMC ceded to reinsurers a portion of these risks and paid premiums based upon the risk and exposure of the policies subject to such reinsurance. Reinsurance is subject to collectibility in all cases and to aggregate loss limits in certain cases. Although the reinsurer is liable to the extent of the reinsurance limits purchased, LMC remains primarily liable as the direct insurer on all risks reinsured. LMC also holds collateral, including escrow funds, letters of credit, and trust funds, under certain reinsurance agreements. LMC monitors the financial condition of reinsurers on an ongoing basis, and reviews its reinsurance arrangements periodically.

The estimated maximum amount of return commission due LMC if all of the Company's reinsurance was canceled as of December 31, 2008 is as follows:

		Assumed		Ceded		Net	
		Unearned premium liability	Commission equity	Unearned premium liability	Commission equity	Unearned premium liability	Commission equity
				(In thousands)			
Affiliates	$	—	—	309	18	(309)	(18)
All other		—	—	—	—	—	—
Total	$	—	—	309	18	(309)	(18)

(6) Federal Income Taxes

The components of the Company's net deferred tax asset as of December 31, 2008 and 2007 were as follows:

		2008	2007
		(In thousands)	
Total gross deferred tax assets	$	88,459	88,552
Total deferred tax liabilities		—	1
Net deferred tax asset		88,459	88,551
Deferred tax asset nonadmitted		88,459	88,551
Net admitted deferred tax asset	$	—	—
Decrease in nonadmitted asset	$	(92)	(208)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2008 and 2007 were as follows:

		2008	2007
		(In thousands)	
Deferred tax assets:			
Section 197 intangible	$	58,388	64,276
Loss carryforwards		30,055	24,260
Other, net		16	16
Total deferred tax assets		88,459	88,552
Nonadmitted deferred tax assets		88,459	88,551
Admitted deferred tax assets		—	1
Deferred tax liabilities:			
Investments		—	1
Total deferred tax liabilities		—	1
Net admitted deferred tax asset	$	—	—

The change in net deferred income taxes as of December 31, 2008 and 2007 comprised the following:

		2008	2007	Change
			(In thousands)	
Total deferred tax assets	$	88,459	88,552	(93)
Total deferred tax liabilities		—	1	(1)
Net deferred tax asset	$	88,459	88,551	(92)

At December 31, 2008, the Company had $85.9 million of operating loss carryforward, which originated and expires as follows:

Origination year	Expiration year		Amount
			(In thousands)
2003	2023	$	9,011
2004	2024		14,888
2005	2025		15,420
2006	2026		13,546
2007	2027		16,401
2008	2028		16,590
		$	85,856

There are no income taxes incurred in the current year and prior year that will be available for recoupment in the event of future net losses.

Tax returns for the years through 2004 are closed for Internal Revenue Service (IRS) examination. The Company is not currently under examination by the IRS for any open tax years.

(7) Transactions with Affiliates and Related Parties

The Company utilizes the services of the employees and the office facilities of LMC pursuant to the terms of a quota share pooling agreement. Charges for these services, which include benefit plan expenses for such employees, are allocated to the Company based on actual expenses incurred in accordance with the Company’s use of the services and facilities. Under the existing quota share reinsurance agreement, all such charges are ceded to LMC, resulting in no net impact to surplus.

As mentioned elsewhere in the notes, the Company is largely dependent on LMC’s financial and regulatory status. If LMC does not or cannot meet its reinsurance obligations to the Company, the Company’s liquidity and financial status would be significantly affected.

LMC and its affiliates, including the Company, jointly participate in a corporate insurance program, including D&O coverage. A LMC subsidiary, Specialty Surplus Insurance Company, extended a reinsurance agreement, effective December 31, 2007 for a three-year period ending December 31, 2010, facultatively reinsuring a corresponding three-year A-side management liability policy issued by an unaffiliated third party to LMC and the Company.

At December 31, 2006, the Company held in its name certain Texas guaranty fund premium tax credits that previously had been ceded to LMC under an intercompany reinsurance agreement. LMC and certain other affiliates also held Texas premium tax credits. In the first quarter of 2007, the Company and those affiliates sold most of their credits to two insurance company subsidiaries of Unitrin, Inc. (Unitrin). As all the Company's sale proceeds were ceded to LMC, the sale to Unitrin had no net impact on the Company's statutory balance sheets. Also in the first quarter of 2007, LMC separately sold to the Company $28 thousand of 2003 tax year Texas premium tax credits. The Company then promptly filed a refund request with the Texas Comptroller and utilized in 2007 the purchased credits against the Company's 2003 premium tax liability. The purchase from LMC, therefore, also had no net impact on the Company's statutory balance sheets. Both the Unitrin and the LMC transactions received regulatory approvals in both Texas and Illinois.

In various other notes to the statutory balance sheets, transactions with affiliates and related parties are also discussed. At December 31, 2008 and 2007, the Company had an obligation to LMC of $215 thousand and $60 thousand, respectively, for services and payments made on behalf of the Company. Intercompany balances are settled on a semi-annual basis, to the extent that the Company has sufficient unencumbered assets to make the payment.

(8) Risk-Based Capital

The NAIC utilizes a RBC formula intended for regulatory monitoring of property-casualty insurers. Under RBC rules in Illinois, state regulators may mandate remedial action for inadequately capitalized companies. The focus of the capital rules is a risk-based formula that applies prescribed factors to various risk elements in an insurer's business and investments to develop a minimum capital requirement designed to be proportional to the amount of risk assumed by the insurer. For the last five years (and for 2006 through 2008 excluding the benefit of prescribed and permitted accounting practices), LMC's level of surplus has been at the "mandatory control level" under the RBC rules. At this level, the Division of Insurance has substantial authority to exercise control over LMC and its affiliates, including the Company. The Division of Insurance is mandated to place a company at this level under its control, except where, as is the case with LMC, such company is a property and casualty insurance company that is no longer writing new business and is running off its existing business, in which case the Director of the Division of Insurance (the Director) has discretion to allow the continued run-off. On March 19, 2004, LMC along with the Company submitted to the Division of Insurance its commercial run-off plan which was approved on June 9, 2004. The Company updates the run-off plan based on current information from time to time. Details of the plan are confidential pursuant to the state's RBC statute.

Having entered into voluntary run-off in 2003, Kemper has been operating under guidance provided within certain agreed to Corrective Orders with the Division of Insurance, pursuant to which Kemper, including the Company, has ceased to write virtually all insurance business and is settling its liabilities under the administrative supervision of the Division of Insurance. As required by the Division of Insurance, Kemper is operating under a confidential RBC plan (the run-off plan) to address its RBC level. The run-off plan is designed to help Kemper meet its goal of resolving, to the maximum extent possible, all valid policyholder claims.

Risks and uncertainties involved in implementing the run-off plan include the need to achieve significant policy buybacks and novations; to complete other surplus-enhancing transactions; to commute certain reinsurance agreements; to complete other liquidity-enhancing transactions, to hire and retain the staff and

resources necessary to implement the plan; to further reduce expenses; and to consummate agreements with regulators and other third parties. Achieving the surplus and liquidity projections in the run-off plan requires the consummation of agreements with insureds for policy buybacks and novations; the timely performance of payment and other contractual obligations owed to Kemper, including the Company, by various third parties, including reinsurers as well as insureds and agents; agreements with regulators in various jurisdictions; and the absence of significant additional disputes not only with reinsurers but also with creditors, including insureds and certain states, which could involve judicial or other actions to seek either to force Kemper to collateralize its unsecured obligations or to not timely release collateral back to Kemper. Therefore, no assurance can be given that the run-off plan will continue to be successfully implemented.

The events discussed within this note and throughout the notes to the statutory balance sheets (see note 9) raise substantial doubt about the Company's ability to continue as a going concern. The statutory balance sheets and related schedules have been prepared assuming that the Company will continue as a going concern.

The Division of Insurance continues to closely monitor Kemper's progress in achieving the objectives of the run-off plan. As has been the case for six years, the Division of Insurance retains the discretion at any time to seek to place Kemper, including the Company, in a formal proceeding (conservatorship or receivership, rehabilitation or liquidation). The risk of a proceeding would be exacerbated if Kemper fails to have sufficient liquid assets to meet its current obligations, or if Kemper's reported liabilities at any time exceed its reported assets, or if Kemper fails to meet the surplus and liquidity projections set forth in the run-off plan.

The Company has also entered into consent agreements with certain other states under which the Company agreed to cease writing business in those jurisdictions. Most recently, in 2008, the Company entered into a consent order restricting the Company from writing business in Alabama. In 2007, the Florida Office of Insurance Regulation notified the Company that its license (certificate of authority to conduct insurance business in Florida) expired by operation of law due to the prior suspension of the license in 2004 (after the Company had entered run-off status). The license is not required for the Company to continue to handle claims, or to liquidate assets or liabilities, from its prior operations.

The Company's RBC ratio, unlike LMC's, exceeds any regulatory action levels. However, because of the Company's heavy reliance on reinsurance recoveries and operations support from LMC, the regulatory and financial status of LMC has had and will continue to have a significant impact on the Company's operations.

(9) Commitments, Contingent Liabilities, Liquidity, and Other Contingencies

Ratings

In early 2005, LMC requested that A.M. Best cease rating Kemper, including the Company. As of December 31, 2004, A.M. Best had assigned the Company a D (poor) rating. In June and July 2003, respectively, Moody's Investor Services and Standard & Poor's last downgraded the Company's financial strength ratings to Caa3 (very poor) and CCC (very weak), respectively, when, at LMC's request, they ceased rating Kemper.

The downgrades to below A- effectively ended Kemper's ability to write most new commercial lines of business or retain existing policyholders. In 2003, as a result of a combination of various business factors including the ratings downgrades and Kemper's deteriorating statutory surplus, the Company substantially ceased underwriting activities other than as required by contract or law. Since then, Kemper has been subject to Corrective Orders by the Division of Insurance not to write any new or renewal business except as necessary to comply with contractual commitments or as expressly permitted by the Division of Insurance.

Liquidity

Although the Company's operating cash flow (along with the portion of the investment portfolio that is held in cash and highly liquid short-term securities) has historically met the liquidity requirements of the Company's operations, the Company is heavily dependent on its reinsurance with LMC to meet its current obligations and maintain its surplus. LMC is experiencing and will most likely continue to experience negative cash flow from operations. Other than reinsurance recoverables from business ceded to LMC, the Company's cash inflow consists primarily of income from investments and sales and maturities of investments. Thus, it is critical for the Company to be able to collect its reinsurance recoverables from LMC. However, Corrective Orders prohibit the transfer of assets from, or liabilities to, any affiliated parties without the prior written approval of the Director.

There are a number of factors that could adversely affect the Company's surplus and liquidity position and its adequacy through future years. There can be no assurance that LMC will be successful to the extent necessary to avoid a negative surplus in future years. In addition, as of December 31, 2008, LMC has $614.5 million of invested assets that are encumbered by being on deposit or held in trust or escrow arrangements and access to these amounts is subject to certain limitations.

Structured Settlements

In limited circumstances to settle certain insurance claim liabilities prior to the Company entering run-off in early 2003, the Company from time to time since the late 1970s purchased from various life insurance companies structured settlement annuities naming the settling claimants as payees. In many of those settlements, the Company was named the owner of the annuity and is contingently liable to the claimant for the unpaid periodic payments in the event of the default or insolvency of the life insurance company. The Company has calculated the present value (at a 4.2% discount rate) of such future unpaid annuity installments. As shown in the following table, the Company reports that its contingent liabilities for future unpaid annuity installments totaled $31.0 million at December 31, 2008. These reserves are no longer carried in the statutory balance sheets.

In connection with the intercompany pooling agreement as amended in 2003, the Company has ceded to LMC all its insurance liabilities, including any contingent liabilities for structured settlement annuities, and has transferred to LMC assets or rights thereto, including annuities owned by the Company (see note 5). Therefore, the $31.0 million of contingent exposure for structured settlement annuity liabilities is contingent on LMC as well as on the respective life companies.

The total value of annuities due from a life insurer in excess of 1% of the Company's surplus is shown in the table below:

Carrier [1]	Location	Reportable amounts (In thousands)
Genworth Life and Annuity Insurance Company	Richmond, VA	$ 6,963
Symetra Life Insurance Company	Seattle, WA	4,438
The Manufacturers Life Insurance Company	Toronto, Canada	3,966
Fidelity Life Association	Oak Brook, IL	2,453
The Prudential Insurance Company of America	Newark, NJ	1,737
AIG Annuity Insurance Company	New York, NY	1,713
Executive Life Insurance Company of New York [2]	New York, NY	1,493
Midland National Life Insurance Company	Sioux Falls, SD	1,006
Metropolitan Life Insurance Company	Long Island City, NY	932
Pacific Life Insurance Company	Newport Beach, CA	743
New York Life Insurance Company	New York, NY	624
Monumental Life Insurance Company	Cedar Rapids, IA	556
Aurora National Life Assurance Company	East Hartford, CT	549
Presidential Life Insurance Company	Nyack, NY	543
Transamerica Financial Life Insurance Company	Cedar Rapids, IA	457
Protective Life Insurance Company	Birmingham, AL	374
Genworth Life Insurance Company of New York	New York, NY	331
The Lincoln National Life Insurance Company	Fort Wayne, IN	252
Continental Assurance Company	Chicago, IL	233
Transamerica Occidential Life Insurance Company	Cedar Rapids, IA	208
Genworth Life Insurance Company	Wilmington, DE	144
Liberty Life Assurance Company of Boston	Dover, NH	140
Aviva Life and Annuity Company	Des Moines, IA	125
North American Company for Life & Health Insurance	Sioux Falls, SD	119
Life Insurance Company of North America	Bloomfield, CT	115
United of Omaha Life Insurance Company	Omaha, NE	114
America General Life Insurance Company	Houston, TX	113
AIG Life Insurance Company	Houston, TX	112
All other		422
Total		$ 30,975

(Continued)

(1) All of the life insurance companies listed in the preceding table are rated A- or better by A.M. Best other than as follows: Presidential Life Insurance Company is rated B+; Executive Life Insurance Company of New York (ELNY) and Aurora National Life Assurance Company are not rated. In addition, all of the companies are licensed in the state of the Company's domicile, Illinois, other than ELNY.

(2) ELNY was placed in rehabilitation under the supervision of the New York Liquidation Bureau in 1992. ELNY has continued to pay 100% on all its annuities since then; however, the extent of ELNY's ability to continue to pay its obligations as they become due is unknown. There is a reasonable possibility that a liability will be incurred, but the Company believes that an estimate of a liability currently cannot be made with available information.

Other Items

In the ordinary course of business, the Company is involved in various legal actions for which it establishes liabilities where appropriate. In the opinion of the Company's management, based upon the advice of legal counsel, contingent liabilities arising from litigation, tax, and compliance matters are not expected to have a material adverse effect on the Company's statutory balance sheets due to established liabilities and anticipated insurance and reinsurance recoverables, but there can be no assurance that such matters will not become material due to future developments, including any changes with respect to the financial condition of the Company.

(10) Fair Value of Financial Instruments

Fair values are estimated at specific points in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Fair values are based on quoted market prices when available and appropriate. Otherwise fair values for financial instruments are generally determined using discounted cash flow models and assumptions that are based on judgments regarding current and future economic conditions and the risk characteristics of the investments. Although fair values are calculated using assumptions that management believes are appropriate, changes in assumptions could significantly affect the estimates and such estimates should be used with care.

Fair values are determined for existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and certain liabilities that are not considered financial instruments. Accordingly, the aggregate fair value presented does not represent the underlying value of the Company. In addition, tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair values and have not been considered in any of the estimates.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash equivalents and short-term investments: Fair values for money market funds are based on quoted market prices. Fair values for other instruments approximate amortized cost.

Bonds: Fair values for bonds are based on quoted market prices from an orderly market at the reporting date for those or similar investments. If quoted market prices from an orderly market are not available, the fair value is determined using an income approach valuation technique (present value using the discount rate adjustment technique) that considers, among other things, interest rates, the issuer's credit spread, prepayments, performance of the underlying collateral for loan-backed securities and illiquidity by sector and maturity.

Cash: The statement value reported for cash approximates fair value.

The statement values and fair values of the Company's financial instruments at December 31, 2008 and 2007 were as follows:

		2008		2007	
		Statement value	**Fair value**	**Statement value**	**Fair value**
		(In thousands)			
Financial instruments recorded as assets:					
Bonds	$	9,726	9,843	9,238	9,340
Cash, cash equivalents, and short-term investments		1,462	1,462	1,561	1,561

The Company does not have any financial assets or liabilities carried at fair value at December, 31, 2008. If it did have financial assets or liabilities carried at fair value, they would be classified, for disclosure purposes, based on a hierarchy defined by SFAS No. 157, *Fair Value Measurements*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Schedule I

AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY

Supplemental Schedule of Investments

December 31, 2008

The following is a summary of certain financial data as of December 31, 2008 and for the year then ended for purposes of complying with the Manual. Such data is included in the Company's 2008 Annual Statement as filed with the Division of Insurance.

Investment categories	Gross investment holdings		Admitted assets as reported in the annual statement	
	Amount	**Percentage**	**Amount**	**Percentage**
Bonds:				
U.S. Treasury securities	$ 3,831,602	34.247%	$ 3,831,602	34.247%
U.S. government agency obligations (excluding mortgage-backed securities):				
Issued by U.S. government sponsored agencies	1,001,870	8.955	1,001,870	8.955
Foreign government (including Canada, excluding mortgage-backed securities)	76,228	0.681	76,228	0.681
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
Revenue and assessment obligations	408,724	3.653	408,724	3.653
Mortgage-backed securities (includes residential and commercial MBS):				
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC, or VA	1,711,697	15.299	1,711,697	15.299
All other	1,194,768	10.679	1,194,768	10.679
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	1,501,214	13.418	1,501,214	13.418
Cash, cash equivalents, and short-term investments	1,462,023	13.068	1,462,023	13.068
Total cash and invested assets	$ 11,188,126	100.000%	$ 11,188,126	100.000%

See accompanying independent auditors' report.

AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY

Supplemental Schedule of Investment Risk Interrogatories

December 31, 2008

The following interrogatories as of and for the year ended December 31, 2008 are for the purpose of complying with the Manual.

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. Reporting entity's total admitted assets as reported on page 2 of the annual statement: $11,326,964.

2. Ten largest exposures to a single issuer/borrower/investment:

Issuer	Description of exposure	Amount	of total admitted assets
1. Dreyfus Cash Mgmt CL A FD	Class 1 MMF – Cat. 8	$ 1,639,108	14.5%
2. Conocophillips	Bond – Cat. 2.1	521,684	4.6
3. LBUBS 2001-C3 A2 - Mtg Multi-Class	Bond – Cat. 1.523	508,391	4.5
4. Amsouth Bancorp	Bond – Cat. 2.1	500,564	4.4
5. FNR 2005-86 WH - Mtg Multi-Class	Bond – Cat. 1.521	471,447	4.2
6. CCMSC 1999-2 A2 - Mtg Multi-Class	Bond – Cat. 1.523	470,278	4.2
7. FHR 2654 OY – Mtg Multi-Class	Bond – Cat. 1.521	412,840	3.6
8. Chicago IL Pub Bldg ETM	Bond – Cat. 1.43	408,724	3.6
9. FHR 2943 JB - Mtg Multi-Class	Bond – Cat. 1.521	347,827	3.1
10. FHR 2857 TE - Mtg Multi-Class	Bond – Cat. 1.521	214,325	1.9

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

Bonds	Amount	Percentage of total admitted assets	Preferred stocks	Amount	Percentage of total admitted assets
NAIC-1	$ 11,365,211	100.3%	P/RP-1	$ —	—%
NAIC-2	—	—	P/RP-2	—	—
NAIC-3	—	—	P/RP-3	—	—
NAIC-4	—	—	P/RP-4	—	—
NAIC-5	—	—	P/RP-5	—	—
NAIC-6	—	—	P/RP-6	—	—

(Continued)

AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY

Supplemental Schedule of Investment Risk Interrogatories

December 31, 2008

4. Assets held in foreign investments:

1.	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No [ ]
2.	Total admitted assets held in foreign investments	$	—	—%
3.	Foreign-currency-denominated investments	$	—	—%
4.	Insurance liabilities denominated in that same foreign currency	$	—	—%

If response to 1. above is yes, responses are not required for interrogatories 5 – 10.

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

   Not applicable.

6. Largest foreign investment exposures by country, categorized by NAIC sovereign rating:

   Not applicable.

7. Aggregate unhedged foreign currency exposure:

   Not applicable.

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating:

   Not applicable.

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:

   Not applicable.

10. Ten largest nonsovereign (i.e, nongovernmental) foreign issues:

    Not applicable.

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

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

    If response is yes, detail is not required for the remainder of interrogatory 11.

(Continued)

Schedule II

AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY

Supplemental Schedule of Investment Risk Interrogatories

December 31, 2008

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

    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 is yes, responses are not required for the remainder of interrogatory 12.

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

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

    If response is yes, responses are not required for the remainder of interrogatory 13.

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

    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 is yes, responses are not required for the remainder of interrogatory 14.

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

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

    If response is yes, responses are not required for the remainder of interrogatory 15.

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

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

    If response is yes, responses are not required for the remainder of interrogatory 16 and interrogatory 17.

17. Not applicable.

(Continued)

AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY

Supplemental Schedule of Investment Risk Interrogatories

December 31, 2008

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate.

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

    If response is yes, responses are not required for the remainder of interrogatory 18.

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments in mezzanine real estate loans.

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

    If response is yes, responses are not required for the remainder of interrogatory 19.

20. Amounts and percentages of the reporting entity's total admitted assets subject to securities lending agreements, repurchase and reverse repurchase agreements, and dollar repurchase and dollar reverse repurchase agreements:

    None.

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

    None.

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

    None.

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

    None.

See accompanying independent auditors' report.

AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY

Supplemental Schedule of Reinsurance Risk Interrogatories

December 31, 2008

1. The reporting entity does not have any risks reinsured under a quota-share reinsurance contract with any other entity that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit, or any similar provisions).

2. The reporting entity did not cede any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during 2008: (i) it recorded a positive or negative underwriting result greater than 5% 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 5% 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 or other features that would have similar results:

    a. A contract term longer than two years and the contract is noncancelable 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 that 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.

3. During 2008, the reporting entity did not cede 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 statements; 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.

(Continued)

Schedule III

AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY

Supplemental Schedule of Reinsurance Risk Interrogatories

December 31, 2008

4. The reporting entity did not cede any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during 2008 that was either:

   a. Accounted for as reinsurance (either prospective or retroactive) under SSAP and as a deposit under GAAP; or
   b. Accounted for as reinsurance under GAAP and as a deposit under SSAP.

See accompanying independent auditors' report.