2 2 9 7 7 2 0 0 9 2 0 1 0 0 1 0 0

PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2009

OF THE CONDITION AND AFFAIRS OF THE

LUMBERMENS MUTUAL CASUALTY COMPANY

NAIC Group Code 0108 (Current Period), 0108 (Prior Period) NAIC Company Code 22977 Employer's ID Number 36-1410470

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

Country of Domicile United States

Incorporated/Organized 11/18/1912 Commenced Business 11/25/1912

Statutory Home Office 1 Kemper Drive (Street and Number), Long Grove, IL 60049-0001 (City or Town, State and Zip Code)

Main Administrative Office 1 Kemper Drive (Street and Number) Long Grove, IL 60049-0001 (City or Town, State and Zip Code) 847-320-2000 (Area Code) (Telephone Number)

Mail Address 1 Kemper Drive (Street and Number or P.O. Box), Long Grove, IL 60049-0001 (City or Town, State and Zip Code)

Primary Location of Books and Records 1 Kemper Drive (Street and Number) Long Grove, IL 60049-0001 (City or Town, State and Zip Code) 847-320-3127 (Area Code) (Telephone Number)

Internet Website Address www.kemperinsurance.com

Statutory Statement Contact Fredrick Thomas Griffith (Name) 847-320-3127 (Area Code) (Telephone Number) (Extension)

Fred.Griffith@kemperinsurance.com (E-mail Address) 847-320-3818 (Fax Number)

OFFICERS

Name	Title	Name	Title
Douglas Sean Andrews	President and CEO	John Keating Conway	Secretary
Fredrick Thomas Griffith	Chief Financial Officer	Geoffrey Andrew Cooke	Treasurer

OTHER OFFICERS

Barbara Kay Murray #	Senior Vice President	Benjamin David Schwartz	Senior Vice President

DIRECTORS OR TRUSTEES

Douglas Sean Andrews	Peter Bannerman Hamilton	George Ralph Lewis	Arthur James Massolo
David Barrett Mathis			

State of Illinois

County of Lake ss

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

Douglas Sean Andrews	John Keating Conway	Fredrick Thomas Griffith
President and CEO	Secretary	Chief Financial Officer

Subscribed and sworn to before me this 19th day of February, 2010

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

ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D)	805,880,134		805,880,134	1,020,334,355
2. Stocks (Schedule D):				
2.1 Preferred stocks	0		0	0
2.2 Common stocks	60,979,750		60,979,750	69,745,008
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens			0	0
3.2 Other than first liens			0	0
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less $ .... encumbrances)			0	0
4.2 Properties held for the production of income (less $ .... encumbrances)			0	0
4.3 Properties held for sale (less $ .... encumbrances)			0	0
5. Cash ($ 1,079,208, Schedule E, Part 1), cash equivalents ($ 0, Schedule E, Part 2) and short-term investments ($ 58,255,553, Schedule DA)	59,334,761		59,334,761	86,360,358
6. Contract loans, (including $ .... premium notes)			0	0
7. Other invested assets (Schedule BA)	5,618,196		5,618,196	5,966,691
8. Receivables for securities			0	0
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	931,812,841	0	931,812,841	1,182,406,412
11. Title plants less $ .... charged off (for Title insurers only)			0	0
12. Investment income due and accrued	6,139,131		6,139,131	9,234,897
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	3,980,755	4,688,736	(707,981)	3,923,601
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ .... earned but unbilled premium)	8,742,881	77,846	8,665,035	11,054,085
13.3 Accrued retrospective premium	9,968,557	227,034	9,741,523	17,251,970
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	82,629,828		82,629,828	85,675,362
14.2 Funds held by or deposited with reinsured companies	11,184,035		11,184,035	12,246,065
14.3 Other amounts receivable under reinsurance contracts			0	0
15. Amounts receivable relating to uninsured plans			0	0
16.1 Current federal and foreign income tax recoverable and interest thereon	383,396		383,396	623,957
16.2 Net deferred tax asset	763,191,271	763,191,271	0	0
17. Guaranty funds receivable or on deposit			0	0
18. Electronic data processing equipment and software			0	0
19. Furniture and equipment, including health care delivery assets ($ ....)			0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
21. Receivables from parent, subsidiaries and affiliates	251,713	444	251,269	278,250
22. Health care ($ ....) and other amounts receivable			0	0
23. Aggregate write-ins for other than invested assets	78,036,530	4,108,322	73,928,208	85,177,651
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	1,896,320,938	772,293,653	1,124,027,285	1,407,872,250
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
26. Total (Lines 24 and 25)	1,896,320,938	772,293,653	1,124,027,285	1,407,872,250
DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998)(Line 9 above)	0	0	0	0
2301. Amounts receivable under high deductible policies	8,450,450	3,785,951	4,664,499	11,088,052
2302. Advance to claims service provider	8,292,510		8,292,510	8,334,447
2303. Reinsurance accounted for as a deposit			0	599,510
2398. Summary of remaining write-ins for Line 23 from overflow page	61,293,570	322,371	60,971,199	65,155,642
2399. Totals (Lines 2301 through 2303 plus 2398)(Line 23 above)	78,036,530	4,108,322	73,928,208	85,177,651

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 35, Column 8)	677,228,257	819,591,888
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	22,869,036	16,041,492
3. Loss adjustment expenses (Part 2A, Line 35, Column 9)	213,253,103	220,807,031
4. Commissions payable, contingent commissions and other similar charges	407,204	500,233
5. Other expenses (excluding taxes, licenses and fees)	11,418,403	14,270,656
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	9,326,453	33,073,387
7.1 Current federal and foreign income taxes (including $ .... on realized capital gains (losses))		0
7.2 Net deferred tax liability		0
8. Borrowed money $ .... and interest thereon $		0
9. Unearned premiums (Part 1A, Line 38, Column 5) (after deducting unearned premiums for ceded reinsurance of $ 1,378,387 and including warranty reserves of $ 128,861)	2,569,021	3,663,958
10. Advance premium		0
11. Dividends declared and unpaid:		
11.1 Stockholders		0
11.2 Policyholders		0
12. Ceded reinsurance premiums payable (net of ceding commissions)	331,486	960,829
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	2,133,617	2,741,570
14. Amounts withheld or retained by company for account of others	72,666,145	124,464,509
15. Remittances and items not allocated	1,029,380	12,676,987
16. Provision for reinsurance (Schedule F, Part 7)	0	0
17. Net adjustments in assets and liabilities due to foreign exchange rates	434,296	1,485,005
18. Drafts outstanding		0
19. Payable to parent, subsidiaries and affiliates		0
20. Payable for securities		0
21. Liability for amounts held under uninsured plans		0
22. Capital notes $ .... and interest thereon $		0
23. Aggregate write-ins for liabilities	102,237,606	44,422,490
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	1,115,904,007	1,294,700,035
25. Protected cell liabilities		0
26. Total liabilities (Lines 24 and 25)	1,115,904,007	1,294,700,035
27. Aggregate write-ins for special surplus funds	0	0
28. Common capital stock		0
29. Preferred capital stock		0
30. Aggregate write-ins for other than special surplus funds	1,500,000	1,500,000
31. Surplus notes	698,355,598	698,355,598
32. Gross paid in and contributed surplus		0
33. Unassigned funds (surplus)	(691,732,320)	(586,683,383)
34. Less treasury stock, at cost:		
34.1 .... shares common (value included in Line 28 $ ....)		0
34.2 .... shares preferred (value included in Line 29 $ ....)		0
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 39)	8,123,278	113,172,215
36. Totals (Page 2, Line 26, Col. 3)	1,124,027,285	1,407,872,250
DETAILS OF WRITE-INS		
2301. Accounts payable and other liabilities	102,237,606	44,422,490
2302.		
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	102,237,606	44,422,490
2701.		
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page	0	0
2799. Totals (Lines 2701 through 2703 plus 2798) (Line 27 above)	0	0
3001. Guaranty fund	1,500,000	1,500,000
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page	0	0
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)	1,500,000	1,500,000

STATEMENT OF INCOME

	1 Current Year	2 Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 35, Column 4)	5,176,802	7,846,810
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 35, Column 7)	32,699,827	115,671,390
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	57,529,029	(13,707,489)
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	85,753,838	61,790,049
5. Aggregate write-ins for underwriting deductions	(1,279,771)	(2,000,000)
6. Total underwriting deductions (Lines 2 through 5)	174,702,923	161,753,950
7. Net income of protected cells		0
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	(169,526,121)	(153,907,140)
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	46,651,058	49,128,461
10. Net realized capital gains (losses) less capital gains tax of $ (Exhibit of Capital Gains (Losses))	1,278,934	10,347,261
11. Net investment gain (loss) (Lines 9 + 10)	47,929,992	59,475,722
OTHER INCOME		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered $ 43,536 amount charged off $ (4,937,996))	4,981,532	(5,659,416)
13. Finance and service charges not included in premiums		0
14. Aggregate write-ins for miscellaneous income	7,556,223	4,675,626
15. Total other income (Lines 12 through 14)	12,537,755	(983,790)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(109,058,374)	(95,415,208)
17. Dividends to policyholders	1,964,927	(5,727,457)
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(111,023,301)	(89,687,751)
19. Federal and foreign income taxes incurred	(600,462)	(10,003,154)
20. Net income (Line 18 minus Line 19) (to Line 22)	(110,422,839)	(79,684,597)
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	113,172,215	150,664,386
22. Net income (from Line 20)	(110,422,839)	(79,684,597)
23. Net transfers (to) from Protected Cell accounts		0
24. Change in net unrealized capital gains or (losses) less capital gains tax of $	(5,650,732)	11,586,654
25. Change in net unrealized foreign exchange capital gain (loss)	1,050,710	(1,638,231)
26. Change in net deferred income tax	39,982,855	18,162,229
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	(31,273,709)	2,235,984
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	0	0
29. Change in surplus notes		0
30. Surplus (contributed to) withdrawn from protected cells		0
31. Cumulative effect of changes in accounting principles		0
32. Capital changes:		
32.1. Paid in		0
32.2. Transferred from surplus (Stock Dividend)		0
32.3. Transferred to surplus		0
33. Surplus adjustments:		
33.1. Paid in		0
33.2. Transferred to capital (Stock Dividend)		0
33.3. Transferred from capital		0
34. Net remittances from or (to) Home Office		0
35. Dividends to stockholders		0
36. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)	0	0
37. Aggregate write-ins for gains and losses in surplus	1,264,778	11,845,790
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	(105,048,937)	(37,492,171)
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)	8,123,278	113,172,215
DETAILS OF WRITE-INS		
0501. Change in premium deficiency reserve	(1,279,771)	(2,000,000)
0502.		
0503.		
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)	(1,279,771)	(2,000,000)
1401. Other income	7,556,223	4,675,626
1402.		
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	7,556,223	4,675,626
3701. Provision for uncollectible reinsurance	1,264,778	11,845,790
3702.		
3703.		
3798. Summary of remaining write-ins for Line 37 from overflow page	0	0
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)	1,264,778	11,845,790

CASH FLOW

	1 Current Year	2 Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance	15,733,603	27,104,642
2. Net investment income	52,744,627	53,030,312
3. Miscellaneous income	13,599,785	(1,661,769)
4. Total (Lines 1 through 3)	82,078,015	78,473,185
5. Benefit and loss related payments	165,190,380	144,900,791
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	176,256,739	160,606,148
8. Dividends paid to policyholders	(5,660,561)	(5,635,986)
9. Federal and foreign income taxes paid (recovered) net of $ .... tax on capital gains (losses)	(841,023)	(3,299,370)
10. Total (Lines 5 through 9)	334,945,535	296,571,583
11. Net cash from operations (Line 4 minus Line 10)	(252,867,520)	(218,098,398)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	499,523,618	667,982,986
12.2 Stocks	2,166,776	9,862,148
12.3 Mortgage loans	0	0
12.4 Real estate	0	59,500
12.5 Other invested assets	685,752	866,638
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(9,033)	(118,916)
12.7 Miscellaneous proceeds	0	0
12.8 Total investment proceeds (Lines 12.1 to 12.7)	502,367,113	678,652,356
13. Cost of investments acquired (long-term only):		
13.1 Bonds	288,263,769	544,635,925
13.2 Stocks	0	0
13.3 Mortgage loans	0	0
13.4 Real estate	0	0
13.5 Other invested assets	0	0
13.6 Miscellaneous applications	0	0
13.7 Total investments acquired (Lines 13.1 to 13.6)	288,263,769	544,635,925
14. Net increase (decrease) in contract loans and premium notes	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	214,103,344	134,016,431
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	0	0
16.2 Capital and paid in surplus, less treasury stock	0	0
16.3 Borrowed funds	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities		0
16.5 Dividends to stockholders	0	0
16.6 Other cash provided (applied)	11,738,579	14,680,809
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	11,738,579	14,680,809
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	(27,025,597)	(69,401,158)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	86,360,358	155,761,516
19.2 End of year (Line 18 plus Line 19.1)	59,334,761	86,360,358

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS EARNED

	Lines of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1.	Fire	0	26	3	23
2.	Allied lines	(5)	221	0	216
3.	Farmowners multiple peril	0	0	0	0
4.	Homeowners multiple peril	(1,181)	1	0	(1,180)
5.	Commercial multiple peril	1,607,353	7,930	82,088	1,533,195
6.	Mortgage guaranty	0	0	0	0
8.	Ocean marine	(13,265)	0	0	(13,265)
9.	Inland marine	56,105	250	287	56,068
10.	Financial guaranty	0	0	0	0
11.1	Medical professional liability - occurrence	(81,499)	0	0	(81,499)
11.2	Medical professional liability - claims-made	0	0	0	0
12.	Earthquake	0	0	0	0
13.	Group accident and health	(410,833)	0	0	(410,833)
14.	Credit accident and health (group and individual)	0	0	0	0
15.	Other accident and health	(6,533)	0	0	(6,533)
16.	Workers' compensation	5,104,263	327	104	5,104,486
17.1	Other liability - occurrence	2,407,303	(389,390)	(48,407)	2,066,320
17.2	Other liability - claims-made	(2,787,812)	1,896,071	872,882	(1,764,623)
17.3	Excess Workers' Compensation	25,444		0	25,444
18.1	Products liability - occurrence	(166,737)	145,736	131,254	(152,255)
18.2	Products liability - claims-made	0	0	0	0
19.1,19.2	Private passenger auto liability	(1,818,208)	0	0	(1,818,208)
19.3,19.4	Commercial auto liability	(494,974)	0	0	(494,974)
21.	Auto physical damage	740	0	0	740
22.	Aircraft (all perils)	(65,958)	0	0	(65,958)
23.	Fidelity	(52,088)	0	0	(52,088)
24.	Surety	1,002,797	1,728,664	1,401,949	1,329,512
26.	Burglary and theft	(5,175)	0	0	(5,175)
27.	Boiler and machinery	(28,746)	0	0	(28,746)
28.	Credit	(53,488)	0	0	(53,488)
29.	International	0	0	0	0
30.	Warranty	(135,638)	274,162	128,861	9,663
31.	Reinsurance - Nonproportional Assumed Property	0		0	0
32.	Reinsurance - Nonproportional Assumed Liability	0	(40)	0	(40)
33.	Reinsurance - Nonproportional Assumed Financial Lines	0		0	0
34.	Aggregate write-ins for other lines of business	0	0	0	0
35.	TOTALS	4,081,865	3,663,958	2,569,021	5,176,802
	DETAILS OF WRITE-INS				
3401.					
3402.					
3403.					
3498.	Sum. of remaining write-ins for Line 34 from overflow page	0	0	0	0
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)	0	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1A - RECAPITULATION OF ALL PREMIUMS

	Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (a)	2 Amount Unearned (Running More Than One Year from Date of Policy) (a)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1.	Fire	3				3
2.	Allied lines					0
3.	Farmowners multiple peril					0
4.	Homeowners multiple peril					0
5.	Commercial multiple peril	82,088				82,088
6.	Mortgage guaranty					0
8.	Ocean marine					0
9.	Inland marine		287			287
10.	Financial guaranty					0
11.1	Medical professional liability - occurrence					0
11.2	Medical professional liability - claims-made					0
12.	Earthquake					0
13.	Group accident and health					0
14.	Credit accident and health (group and individual)					0
15.	Other accident and health					0
16.	Workers' compensation	104				104
17.1	Other liability - occurrence		(48,407)			(48,407)
17.2	Other liability - claims-made	37,464	835,418			872,882
17.3	Excess Workers' Compensation					0
18.1	Products liability - occurrence		131,254			131,254
18.2	Products liability - claims-made					0
19.1,19.2	Private passenger auto liability					0
19.3,19.4	Commercial auto liability					0
21.	Auto physical damage					0
22.	Aircraft (all perils)					0
23.	Fidelity					0
24.	Surety	1,318,276	83,673			1,401,949
26.	Burglary and theft					0
27.	Boiler and machinery					0
28.	Credit					0
29.	International					0
30.	Warranty		128,861			128,861
31.	Reinsurance - Nonproportional Assumed Property					0
32.	Reinsurance - Nonproportional Assumed Liability					0
33.	Reinsurance - Nonproportional Assumed Financial Lines					0
34.	Aggregate write-ins for other lines of business	0	0	0	0	0
35.	TOTALS	1,437,935	1,131,086	0	0	2,569,021
36.	Accrued retrospective premiums based on experience					
37.	Earned but unbilled premiums					
38.	Balance (Sum of Line 35 through 37)					2,569,021
	DETAILS OF WRITE-INS					
3401.						
3402.						
3403.						
3498.	Sum. of remaining write-ins for Line 34 from overflow page	0	0	0	0	0
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)	0	0	0	0	0

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B - PREMIUMS WRITTEN

	Line of Business	1 Direct Business (a)	Reinsurance Assumed 2 From Affiliates	Reinsurance Assumed 3 From Non-Affiliates	Reinsurance Ceded 4 To Affiliates	Reinsurance Ceded 5 To Non-Affiliates	6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
1.	Fire			4,082		4,082	0
2.	Allied lines			9,707		9,712	(5)
3.	Farmowners multiple peril						0
4.	Homeowners multiple peril	16	(2,222)			(1,025)	(1,181)
5.	Commercial multiple peril	(25,271)		(5,299)		(1,637,923)	1,607,353
6.	Mortgage guaranty						0
8.	Ocean marine		(110)			13,155	(13,265)
9.	Inland marine	(246)	(276)	1,045		(55,582)	56,105
10.	Financial guaranty						0
11.1	Medical professional liability - occurrence					81,499	(81,499)
11.2	Medical professional liability - claims-made						0
12.	Earthquake			1,361		1,361	0
13.	Group accident and health					410,833	(410,833)
14.	Credit accident and health (group and individual)						0
15.	Other accident and health	26,557				33,090	(6,533)
16.	Workers' compensation	(297,487)	1,271,267	1,228,668		(2,901,815)	5,104,263
17.1	Other liability - occurrence	(578,705)	506,191	586,389		(1,893,428)	2,407,303
17.2	Other liability - claims-made		(300,000)	11,878		2,499,690	(2,787,812)
17.3	Excess Workers' Compensation	(3,305,724)	340,444	3,305,724		315,000	25,444
18.1	Products liability - occurrence	1,819	(32,092)			136,464	(166,737)
18.2	Products liability - claims-made			(85)		(85)	0
19.1,19.2	Private passenger auto liability		(810)			1,817,398	(1,818,208)
19.3,19.4	Commercial auto liability	118,782	20,520	491		634,767	(494,974)
21.	Auto physical damage	929	(228)	547		508	740
22.	Aircraft (all perils)	(166,822)		(134,910)		(235,774)	(65,958)
23.	Fidelity					52,088	(52,088)
24.	Surety	(13,816)	1,422,813	13,490	32,042	387,648	1,002,797
26.	Burglary and theft					5,175	(5,175)
27.	Boiler and machinery					28,746	(28,746)
28.	Credit					53,488	(53,488)
29.	International						0
30.	Warranty					135,638	(135,638)
31.	Reinsurance - Nonproportional Assumed Property	XXX					0
32.	Reinsurance - Nonproportional Assumed Liability	XXX		475,110		475,110	0
33.	Reinsurance - Nonproportional Assumed Financial Lines	XXX					0
34.	Aggregate write-ins for other lines of business	0	0	0	0	0	0
35.	TOTALS	(4,239,968)	3,225,497	5,498,198	32,042	369,820	4,081,865
	DETAILS OF WRITE-INS						
3401.							
3402.							
3403.							
3498.	Summary of remaining write-ins for Line 34 from overflow page	0	0	0	0	0	0
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)	0	0	0	0	0	0

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

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

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - LOSSES PAID AND INCURRED

		Losses Paid Less Salvage				5	6	7	8
	Line of Business	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)	Net Losses Unpaid Current Year (Part 2A, Col. 8)	Net Losses Unpaid Prior Year	Losses Incurred Current Year (Cols. 4 + 5 - 6)	Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
1.	Fire		25,746	27,579	(1,833)	(1,279,082)	(1,707,450)	426,535	1,854,500.0
2.	Allied lines		5,683	5,683	0	117	(20,499)	20,616	9,544.4
3.	Farmowners multiple peril		(55,681)	(55,681)	0	0	0	0	0.0
4.	Homeowners multiple peril	157,054	(790,529)	(556,933)	(76,542)	3,083,306	3,389,471	(382,707)	32,432.8
5.	Commercial multiple peril	1,163,946	10,909,190	5,660,937	6,412,199	30,746,163	41,030,195	(3,871,833)	(252.5)
6.	Mortgage guaranty				0	0	0	0	0.0
8.	Ocean marine		(4,839)	303,450	(308,289)	21,261	45,518	(332,546)	2,506.9
9.	Inland marine	29,207	(23,093)	(6,534)	12,648	(36,057)	(274,423)	251,014	447.7
10.	Financial guaranty				0	0	0	0	0.0
11.1	Medical professional liability - occurrence		(231)	(231)	0	39,441	47,783	(8,342)	10.2
11.2	Medical professional liability - claims-made		5,132	5,132	0	(26,677)	32,446	(59,123)	0.0
12.	Earthquake		4,681	4,681	0	(71,136)	(73,494)	2,358	0.0
13.	Group accident and health	8,993,244	244,419	98,471	9,139,192	33,144,064	51,762,710	(9,479,454)	2,307.4
14.	Credit accident and health (group and individual)				0	0	0	0	0.0
15.	Other accident and health	9,876	(123)	(242)	9,995	(198,005)	(1,856,611)	1,668,601	(25,541.1)
16.	Workers' compensation	61,860,293	105,569,064	64,234,125	103,195,232	466,107,622	556,486,953	12,815,901	251.1
17.1	Other liability - occurrence	54,513,597	29,479,243	44,365,866	39,626,974	44,210,110	51,777,054	32,060,030	1,551.6
17.2	Other liability - claims-made	5,457,940	9,194,060	7,327,999	7,324,001	26,743,642	25,983,339	8,084,304	(458.1)
17.3	Excess Workers' Compensation	597,713	3,904,525	5,646,497	(1,144,259)	12,302,991	9,015,054	2,143,678	8,425.1
18.1	Products liability - occurrence	2,237,639	6,493,335	14,642,694	(5,911,720)	(24,306,313)	(24,000,302)	(6,217,731)	4,083.8
18.2	Products liability - claims-made		(2,077,646)	(2,077,646)	0	(7,163)	(57,778)	50,615	0.0
19.1,19.2	Private passenger auto liability	2,916,247	1,600,927	3,368,917	1,148,257	2,951,493	3,625,769	473,981	(26.1)
19.3,19.4	Commercial auto liability	2,571,255	2,160,092	1,320,620	3,410,727	3,405,348	5,686,448	1,129,627	(228.2)
21.	Auto physical damage	(36,533)	(83,616)	(54,453)	(65,696)	(86,410)	(182,001)	29,895	4,039.9
22.	Aircraft (all perils)	(310,844)	(678,155)	(308,436)	(680,563)	3,654,848	4,976,956	(2,002,671)	3,036.3
23.	Fidelity	(90,618)	(8,036)	(10,993)	(87,661)	83,764	160,644	(164,541)	315.9
24.	Surety	2,209,902	164,651	2,070,296	304,257	10,174,929	11,205,519	(726,333)	(54.6)
26.	Burglary and theft				0	0	0	0	0.0
27.	Boiler and machinery		(1,561)	(14,323)	12,762	(7,191)	6,635	(1,064)	3.7
28.	Credit				0	1	15	(14)	0.0
29.	International				0	0	0	0	0.0
30.	Warranty		407,563		407,563	313	283,959	123,917	1,282.4
31.	Reinsurance - Nonproportional Assumed Property	XXX	14,637		14,637	304,396	319,033	0	0.0
32.	Reinsurance - Nonproportional Assumed Liability	XXX	14,929,625	2,608,047	12,321,578	66,272,482	81,928,946	(3,334,886)	8,337,215.0
33.	Reinsurance - Nonproportional Assumed Financial Lines	XXX			0	0	0	0	0.0
34.	Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0.0
35.	TOTALS	142,279,918	181,389,063	148,605,522	175,063,459	677,228,257	819,591,889	32,699,827	631.7
	DETAILS OF WRITE-INS								
3401.									
3402.									
3403.									
3498.	Summary of remaining write-ins for Line 34 from overflow page	0	0	0	0	0	0	0	0.0
3499.	Totals (Lines 3401 through 3403 + 3498) (Line 34 above)	0	0	0	0	0	0	0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

		Reported Losses				Incurred But Not Reported			8	9
		1	2	3	4	5	6	7		
	Line of Business	Direct	Reinsurance Assumed	Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	Direct	Reinsurance Assumed	Reinsurance Ceded	Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	Net Unpaid Loss Adjustment Expenses
1.	Fire	20,054	37,059	881,680	(824,567)	65,013	94,746	614,274	(1,279,082)	(324,062)
2.	Allied lines	1,813	797	1,325	1,285	(107,751)	120,914	14,331	117	3,741
3.	Farmowners multiple peril				0				0	
4.	Homeowners multiple peril	117,034	260,963	184,697	193,300	45,151	2,881,600	36,745	3,083,306	178,077
5.	Commercial multiple peril	2,862,443	16,050,293	3,845,336	15,067,400	2,418,515	19,204,950	5,944,702	30,746,163	22,502,185
6.	Mortgage guaranty				0				0	
8.	Ocean marine		20,501	389	20,112		1,319	170	21,261	17,881
9.	Inland marine	256,904	488,265	745,778	(609)	(30,018)	591,273	596,703	(36,057)	207,054
10.	Financial guaranty				0				0	
11.1	Medical professional liability - occurrence	10	141,499	107,741	33,768	(1,556)	73,187	65,958	39,441	37,273
11.2	Medical professional liability - claims-made		377,435	376,073	1,362	(176)	252,294	280,157	(26,677)	69,203
12.	Earthquake		5,260	5,260	0		(68,632)	2,504	(71,136)	(439)
13.	Group accident and health	40,492,118	941,954		41,434,072	(7,088,781)	(632,071)	569,156	(a) 33,144,064	875,471
14.	Credit accident and health (group and individual)				0				0	
15.	Other accident and health				0	(53,990)	(143,400)	615	(a) (198,005)	(2,598)
16.	Workers' compensation	341,232,283	642,755,571	328,281,052	655,706,802	(17,579,132)	(10,692,984)	161,327,064	466,107,622	103,154,363
17.1	Other liability - occurrence	57,773,797	50,289,686	51,736,732	56,326,751	5,319,843	4,209,064	21,645,548	44,210,110	33,337,217
17.2	Other liability - claims-made	12,692,947	25,148,896	20,075,694	17,766,149	12,516,892	10,973,006	14,512,405	26,743,642	8,680,106
17.3	Excess Workers' Compensation	17,073,064	8,719,236	10,891,653	14,900,647	1,397,320	1,217,146	5,212,122	12,302,991	2,288,232
18.1	Products liability - occurrence	8,645,383	7,126,709	26,654,692	(10,882,600)	5,222,989	(2,394,146)	16,252,556	(24,306,313)	36,636,755
18.2	Products liability - claims-made		151,600	151,600	0		91,281	98,444	(7,163)	14,953
19.1,19.2	Private passenger auto liability	3,218,133	3,467,935	3,216,377	3,469,691	505,822	(393,011)	631,009	2,951,493	1,181,981
19.3,19.4	Commercial auto liability	3,531,196	2,366,536	4,626,490	1,271,242	(5,025,506)	8,727,236	1,567,624	3,405,348	635,096
21.	Auto physical damage	1,536	15,109	9,993	6,652	14,412	(142,113)	(34,639)	(86,410)	47,548
22.	Aircraft (all perils)	41,398,958	2,937,093	40,859,028	3,477,023	638,681	913,475	1,374,331	3,654,848	2,000,975
23.	Fidelity	5,880	129,938	591	135,227	(82,551)	(14,252)	(45,340)	83,764	4,070
24.	Surety	4,820,078	14,627,547	996,695	18,450,930	(4,636,369)	(6,077,351)	(2,437,719)	10,174,929	1,786,091
26.	Burglary and theft				0				0	
27.	Boiler and machinery		27	27	0		(6,875)	316	(7,191)	3,808
28.	Credit	30		22	8	(31)		(24)	1	6,642
29.	International				0				0	
30.	Warranty		158		158		155		313	
31.	Reinsurance - Nonproportional Assumed Property	XXX	1,572,879	1,425,846	147,033	XXX	(4,830,990)	(4,988,353)	304,396	(5,314)
32.	Reinsurance - Nonproportional Assumed Liability	XXX	98,404,259	30,482,663	67,921,596	XXX	32,920,855	34,569,969	66,272,482	(83,206)
33.	Reinsurance - Nonproportional Assumed Financial Lines	XXX			0	XXX			0	
34.	Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0	0
35.	TOTALS	534,143,661	876,037,205	525,557,434	884,623,432	(6,461,223)	56,876,676	257,810,628	677,228,257	213,253,103
	DETAILS OF WRITE-INS									
3401.										
3402.										
3403.										
3498.	Summary of remaining write-ins for Line 34 from overflow page	0	0	0	0	0	0	0	0	0
3499.	Totals (Lines 3401 through 3403 + 3498) (Line 34 above)	0	0	0	0	0	0	0	0	0

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	36,615,676			36,615,676
1.2 Reinsurance assumed	65,153,053			65,153,053
1.3 Reinsurance ceded	49,523,392			49,523,392
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	52,245,337	0	0	52,245,337
2. Commission and brokerage:				
2.1 Direct, excluding contingent		(39,975)		(39,975)
2.2 Reinsurance assumed, excluding contingent		580,151		580,151
2.3 Reinsurance ceded, excluding contingent		1,378,700		1,378,700
2.4 Contingent-direct				0
2.5 Contingent-reinsurance assumed				0
2.6 Contingent-reinsurance ceded		(4,247,339)		(4,247,339)
2.7 Policy and membership fees				0
2.8 Net commission and brokerage (2.1 + 2.2 - 2.3 + 2.4 + 2.5 - 2.6 + 2.7)	0	3,408,815	0	3,408,815
3. Allowances to manager and agents				0
4. Advertising				0
5. Boards, bureaus and associations		87,244		87,244
6. Surveys and underwriting reports				0
7. Audit of assureds' records				0
8. Salary and related items:				
8.1 Salaries	4,039,910	28,994,213	304,572	33,338,695
8.2 Payroll taxes	265,241	1,515,864	11,732	1,792,837
9. Employee relations and welfare	439,603	1,663,809	17,314	2,120,726
10. Insurance		3,417,410		3,417,410
11. Directors' fees		116,766		116,766
12. Travel and travel items	75,028	106,873	5,427	187,328
13. Rent and rent items	243,050	3,276,787	1,654	3,521,491
14. Equipment	2,642	281,252		283,894
15. Cost or depreciation of EDP equipment and software		653,135		653,135
16. Printing and stationery	11,096	208,602	8,683	228,381
17. Postage, telephone and telegraph, exchange and express	11,624	250,922	517	263,063
18. Legal and auditing	4,755	5,595,553	830,739	6,431,047
19. Totals (Lines 3 to 18)	5,092,949	46,168,430	1,180,638	52,442,017
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of $ (548,670)		(15,065,677)		(15,065,677)
20.2 Insurance department licenses and fees		153,717		153,717
20.3 Gross guaranty association assessments		(548,670)		(548,670)
20.4 All other (excluding federal and foreign income and real estate)		(894,043)		(894,043)
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)	0	(16,354,673)	0	(16,354,673)
21. Real estate expenses				0
22. Real estate taxes				0
23. Reimbursements by uninsured plans				0
24. Aggregate write-ins for miscellaneous expenses	190,743	52,531,266	404,666	53,126,675
25. Total expenses incurred	57,529,029	85,753,838	1,585,304	(a) 144,868,171
26. Less unpaid expenses - current year	213,253,103	82,419,842	36,300	295,709,245
27. Add unpaid expenses - prior year	220,807,031	47,815,476	28,800	268,651,307
28. Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29. Amounts receivable relating to uninsured plans, current year				0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	65,082,957	51,149,472	1,577,804	117,810,233
DETAILS OF WRITE-INS				
2401. All other	190,743	52,531,266	404,666	53,126,675
2402.				
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page	0	0	0	0
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	190,743	52,531,266	404,666	53,126,675

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

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. Government bonds	(a) 5,980,783	4,971,961
1.1	Bonds exempt from U.S. tax	(a)	
1.2	Other bonds (unaffiliated)	(a) 32,131,702	30,259,892
1.3	Bonds of affiliates	(a) 0	
2.1	Preferred stocks (unaffiliated)	(b) 0	
2.11	Preferred stocks of affiliates	(b) 0	
2.2	Common stocks (unaffiliated)	0	
2.21	Common stocks of affiliates	12,000,000	12,000,000
3.	Mortgage loans	(c)	
4.	Real estate	(d)	
5.	Contract loans		
6.	Cash, cash equivalents and short-term investments	(e) 615,422	400,288
7.	Derivative instruments	(f)	
8.	Other invested assets	425,705	425,705
9.	Aggregate write-ins for investment income	178,516	178,516
10.	Total gross investment income	51,332,128	48,236,362
11.	Investment expenses		(g) 1,585,304
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g)
13.	Interest expense		(h)
14.	Depreciation on real estate and other invested assets		(i)
15.	Aggregate write-ins for deductions from investment income		0
16.	Total deductions (Lines 11 through 15)		1,585,304
17.	Net investment income (Line 10 minus Line 16)		46,651,058
	DETAILS OF WRITE-INS		
0901.	Income from other sources	178,516	178,516
0902.			
0903.			
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0
0999.	Totals (Lines 0901 through 0903) plus 0998 (Line 9 above)	178,516	178,516
1501.			
1502.			
1503.			
1598.	Summary of remaining write-ins for Line 15 from overflow page		0
1599.	Totals (Lines 1501 through 1503) plus 1598 (Line 15 above)		0

(a) Includes $ 1,076,620 accrual of discount less $ 5,430,708 amortization of premium and less $ 540,642 paid for accrued interest on purchases.
(b) Includes $ .... accrual of discount less $ .... amortization of premium and less $ 0 paid for accrued dividends on purchases.
(c) Includes $ 0 accrual of discount less $ 0 amortization of premium and less $ .... paid for accrued interest on purchases.
(d) Includes $ .... for company's occupancy of its own buildings; and excludes $ .... interest on encumbrances.
(e) Includes $ 92,499 accrual of discount less $ 24,573 amortization of premium and less $ 50,996 paid for accrued interest on purchases.
(f) Includes $ .... accrual of discount less $ .... amortization of premium.
(g) Includes $ .... investment expenses and $ .... investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
(h) Includes $ .... interest on surplus notes and $ .... interest on capital notes.
(i) Includes $ .... depreciation on real estate and $ .... depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5. Change in Unrealized Foreign Exchange Capital Gain (Loss)
1.	U.S. Government bonds	558,896		558,896		
1.1	Bonds exempt from U.S. tax			0		
1.2	Other bonds (unaffiliated)	632,415	(1,347,344)	(714,929)	1,315,749	
1.3	Bonds of affiliates	0	0	0	0	0
2.1	Preferred stocks (unaffiliated)	0	0	0	0	0
2.11	Preferred stocks of affiliates	0	0	0	0	0
2.2	Common stocks (unaffiliated)	80,210	(160,491)	(80,281)	734,251	0
2.21	Common stocks of affiliates	0	1,500,100	1,500,100	(8,752,551)	0
3.	Mortgage loans	0	0	0	0	0
4.	Real estate	0	0	0		0
5.	Contract loans			0		
6.	Cash, cash equivalents and short-term investments	56	0	56	0	0
7.	Derivative instruments			0		
8.	Other invested assets	0	24,181	24,181	0	0
9.	Aggregate write-ins for capital gains (losses)	0	(9,089)	(9,089)	1,051,819	0
10.	Total capital gains (losses)	1,271,577	7,357	1,278,934	(5,650,732)	0
	DETAILS OF WRITE-INS					
0901.	Change in deferred gain on investment transfers from subsidiaries			0	1,051,819	
0902.	Realized F/X loss related to repatriation of Canadian branch cash		(9,089)	(9,089)		
0903.				0		
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0	0
0999.	Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)	0	(9,089)	(9,089)	1,051,819	0

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks	0	0	0
2.2 Common stocks	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	0	0	0
3.2 Other than first liens	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company	0	0	0
4.2 Properties held for the production of income	0	0	0
4.3 Properties held for sale	0	0	0
5. Cash (Schedule-E Part 1), cash equivalents (Schedule-E Part 2) and short-term investments (Schedule DA)	0	0	0
6. Contract loans	0	0	0
7. Other invested assets (Schedule BA)	0	0	0
8. Receivables for securities	0	0	0
9. Aggregate write-ins for invested assets	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	0	0	0
11. Title plants (for Title insurers only)	0	0	0
12. Investment income due and accrued	0	0	0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	4,688,736	9,479,273	4,790,537
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	77,846	547,758	469,912
13.3 Accrued retrospective premiums	227,034	342,075	115,041
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers	0	0	0
14.2 Funds held by or deposited with reinsured companies	0	0	0
14.3 Other amounts receivable under reinsurance contracts	0	0	0
15. Amounts receivable relating to uninsured plans	0	0	0
16.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0
16.2 Net deferred tax asset	763,191,271	723,208,416	(39,982,855)
17. Guaranty funds receivable or on deposit	0	0	0
18. Electronic data processing equipment and software	0	0	0
19. Furniture and equipment, including health care delivery assets	0	0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
21. Receivables from parent, subsidiaries and affiliates	444	8,674	8,230
22. Health care and other amounts receivable	0	0	0
23. Aggregate write-ins for other than invested assets	4,108,322	7,433,748	3,325,426
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	772,293,653	741,019,944	(31,273,709)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0
26. Total (Lines 24 and 25)	772,293,653	741,019,944	(31,273,709)
DETAILS OF WRITE-INS			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998)(Line 9 above)	0	0	0
2301. Amounts receivable under high deductible policies	3,785,951	3,440,358	(345,593)
2302. Other admitted assets	322,371	3,993,390	3,671,019
2303.	0		0
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0
2399. Totals (Lines 2301 through 2303 plus 2398)(Line 23 above)	4,108,322	7,433,748	3,325,426

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lumbermens Mutual Casualty Company (the "Company") is a mutual property and casualty insurance company domiciled in the State of Illinois. The Company 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".

Under administrative supervision by the Illinois Department of Insurance (the "Department"), the Company is, and the Kemper Insurance Companies are, operating under a run-off plan filed with the Department in 2004. The Company is subject to confidential corrective orders (the "Corrective Orders") issued by the Department since early 2003 (see Note 14) when the Company went into run-off status. In compliance with applicable law and Corrective Orders, respectively, the Company has not paid any dividends to policyholders (see Note 1.C.) or interest on surplus notes (see Note 13) in 2009 and 2008.

A. Accounting Practices

The accompanying statutory financial statements of the Company have been prepared in conformity with the National Association of Insurance Commissioners (the "NAIC") *Accounting Practices and Procedures Manual* (the "Manual") and with accounting practices prescribed (including accounting allowances under Corrective Orders) or permitted by the Department.

The Company's reported surplus at December 31, 2009 and 2008 reflects increases of $282.0 million and $291.7 million, respectively, at those dates over what would have been reported without accounting practices prescribed or permitted by the Department, as illustrated in the following table and as described further below:

(in thousands) Prescribed or Permitted Practices	December 31, 2009	December 31, 2008	Increase/ (Decrease)
Loss and LAE Reserve Discounting	$ 220,433	241,339	(20,906)
Prepaid Expenses	18,748	19,431	(683)
Provision for Uncollectible Reinsurance	166	5,095	(4,929)
Annuity Reinsurance Contracts	10,082	9,509	573
Subsidiary Audited Financials	4,101	3,628	473
LBA & PDR	28,443	12,705	15,738
Retroactive Reinsurance Agreements	0	0	0
Total	$ 281,973	291,707	(9,734)

1. Loss and LAE Reserve Discounting. Pursuant to a prescribed accounting practice, the Company discounts its loss and loss adjustment expense ("LAE") reserves at 4.2% in the accompanying financial statements. Prior to 2003, the Company discounted at 3.5% (or the required statutory rate) only certain categories of liabilities on its statutory statements of admitted assets, liabilities and surplus ("balance sheet"), essentially the tabular discount on permanent total/lifetime benefit liabilities, pursuant to prescribed accounting practices. (See Note 31.) At December 31, 2009, the total amount of the tabular and non-tabular discount, included on the balance sheet and on Schedule P, was $340.8 million; the total was $375.2 million at December 31, 2008. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been under the tabular discount by $220.4 million at December 31, 2009 and $241.3 million at December 31, 2008. At December 31, 2009, the Company's book yield on cash and invested assets, excluding affiliate investments, was approximately 3.7%. (See Note 14.)

2. Prepaid Expenses. Pursuant to a prescribed accounting practice, the balance sheet of the Company reflects as admitted assets the amounts that the Company has prepaid for claim handling services to two third-party administrators. (See Note 10.) The prescribed practice further allows the Company to admit its December 31, 2009 prepaid expense assets primarily related to information technology services. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by $18.7 million at December 31, 2009 and $19.4 million at December 31, 2008.

3. Provision for Uncollectible Reinsurance. Pursuant to a prescribed accounting practice, the Company established a general provision for uncollectible reinsurance, net of discount, of $25.0 million at December 31, 2009 and $26.3 million at December 31, 2008. The Schedule F penalty otherwise prescribed by the Manual would have been $25.2 million at December 31, 2009 and $31.4 million at December 31, 2008. As prescribed by the Department, this provision has been established using the same 4.2% discount rate as used for the Company's discounted underlying loss and LAE reserves. Such discount reduced the amount of the provision by $2.7 million at December 31, 2009 and $4.2 million at December 31, 2008.

4. Annuity Reinsurance Contracts. Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2009 and 2008 reflects as admitted assets the estimated value of certain annuity reinsurance contracts issued by Washington National Insurance Company, which is rated B+ (good) by A.M. Best. As reflected on the balance sheet, the annuity

NOTES TO FINANCIAL STATEMENTS

reinsurance contracts totaled $13.3 million at December 31, 2009 and $13.4 million at December 31, 2008. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by $10.1 million at December 31, 2009 and $9.5 million at December 31, 2008.

5. Audited Financial Statements of Certain Subsidiaries. For 2009 and 2008, the Department granted a permitted practice allowing the Company to forego the requirement to obtain audited financial statements for certain of the Company's non-insurance subsidiaries. At December 31, 2009 and 2008, such subsidiaries had a combined statement value (surplus) of $4.1 million and $3.6 million, respectively. The Company believes that the statutory carrying values of these subsidiaries approximate the carrying values that would be determined if audited statements were prepared.

6. Loss Based Assessment ("LBA") and Premium Deficiency Reserve ("PDR") Liabilities. Pursuant to a prescribed accounting practice, the Company discounts its LBA and PDR liabilities at 4.2%. The prescribed accounting practice further allows the Company to calculate its December 31, 2009 LBA liability based on an estimate of LBA payments to be made within two years of the date of the quarterly statutory financial statement. With this prescribed practice, the Company's reported surplus exceeded what it would have been by $28.4 million at December 31, 2009 and $12.7 million at December 31, 2008.

7. Retroactive Reinsurance Agreements Treated as Prospective. Certain of the Company's reinsurance agreements entered into prior to 2003 were not reduced to signed written forms within the nine-month period required by the Manual and thus should have been accounted for as retroactive reinsurance. The Department granted a permitted accounting practice to the Company for the 2009 and 2008 statutory financial statements to record these reinsurance agreements as prospective contracts. In the absence of the permitted practice, the Company's restricted surplus would have increased, although its total surplus would not have changed. The Company has not quantified what the increase to restricted surplus would have been absent the permitted practice.

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

The preparation of financial statements in conformity with statutory accounting principles ("SAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. SAP also requires disclosure of contingent assets and liabilities at the financial statement date. 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 below, 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 32, estimates of losses and LAE related to environmental and asbestos claims are also subject to a greater degree of uncertainty and variability. Policyholder dividend recalls (accrued retrospective premiums), LBA, and PDR are estimated based on similar assumptions used to estimate the ultimate liabilities for losses and LAE.

C. Accounting Policy

The Company's significant accounting policies are as follows:

Bonds, cash equivalents, and short-term investments are generally carried at amortized cost; however, bonds rated NAIC 3 or below are carried at the lower of amortized cost or fair value.

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. Such amortization is included in investment income. Amortization of the discount or premium from loan-backed securities is generally recognized retrospectively based on the estimated timing and amount of prepayments of the underlying assets and is adjusted to

NOTES TO FINANCIAL STATEMENTS

reflect differences which arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated; however, the amortization change is recognized prospectively after an other-than-temporary impairment has been recorded for a loan-backed security. To the extent the estimated lives of such securities change as a result of changes in prepayment rates, the adjustment is also included in investment income.

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 and money market fund investments to be short-term investments.

The Company's investments in unaffiliated common stocks are carried at fair value.

Affiliated common stocks are generally carried at the underlying statutory equity of the respective entity's financial statements.

Other invested assets include notes receivable and joint venture interests. Notes receivable are carried at amortized cost, net of any impairment. Joint ventures in which the Company has a less than 10% ownership interest are carried at cost after impairment writedowns. The Company accounts for a real estate acquisition, development, and construction arrangement as a joint venture carried at cost after impairment writedowns, which approximates its underlying statutory equity.

Realized gains or losses, including on the sale of investments, the recognition of other-than-temporary declines in value, or in situations where the Company has made a decision to sell a security at an amount below the security's carrying value, are determined on the basis of specific identification of the acquisition lots of the respective investment sold or written down and are reflected as a component of income. Unrealized gains or losses on revaluation of investments are credited or charged directly to surplus.

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.

Premiums are generally earned on a daily pro rata basis over the term of the policies and are net of reinsurance. Unearned premiums are stated after deduction for related reinsurance amounts. Policy acquisition costs such as commissions, premium taxes, and other underwriting and agency expenses are charged to income as incurred.

The Company has recorded an admitted asset for accrued retrospective premiums which includes amounts due the Company for additional premiums for loss sensitive programs and dividend recalls. Such amounts have been estimated based on actuarial techniques and as such are subject to periodic re-evaluation. Changes in the valuation of this asset will result in a corresponding benefit or expense on the dividends to policyholders line within the statement of income, but do not reflect any agreement or expectation to pay any such dividends.

The Company provides a liability for losses based upon aggregate case-basis estimates for losses reported, estimates received from ceding reinsurers, and estimates of incurred but not reported ("IBNR") losses related to direct and assumed business, less reinsured amounts. Reserves for unreported losses are established using various statistical and actuarial techniques reflecting historical patterns of development of paid and reported losses adjusted for current trends.

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

The Company anticipates investment income as a factor in determining loss and LAE reserves, LBA, PDR, and the provision for uncollectible reinsurance.

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

NOTES TO FINANCIAL STATEMENTS

The Company provides a liability for LAE by estimating future expenses to be incurred in settlement of the claims provided for in the liability for losses, which is stated after deduction for ceded reinsurance.

Assets included in the balance sheet are at admitted asset value. Nonadmitted assets, principally net deferred tax assets, agents' balances over 90-days past due, and 10% of unsecured policyholder dividends recoverable, are excluded through a charge against surplus.

Canadian denominated assets, liabilities, revenues, and expenses of the Company's branch in Canada are included in the statutory financial statements at the nominal Canadian currency amounts. The net assets of the Canadian branch are translated at the applicable year-end exchange rate with the adjustment into U.S. dollars reflected as a separate asset or liability in the Company's balance sheet. The changes in this asset or liability are charged or credited directly to unassigned surplus.

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

None.

3. BUSINESS COMBINATIONS AND GOODWILL

None.

4. DISCONTINUED OPERATIONS

None.

5. INVESTMENTS

A. Mortgage Loans, including Mezzanine Loans

None.

B. Debt Restructuring

None.

C. Reverse Mortgages

None.

D. Bonds and Loans-Backed Securities

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, 2009 and 2008 were as follows:

		2009			
		Statement value	Gross unrealized gains	Gross unrealized losses	Fair value
		(In thousands)			
U.S. Governments	$	103,574	5,948	0	109,522
Special Revenue & Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of U.S. Governments		55,758	757	(246)	56,269
Industrial & Miscellaneous		407,799	11,049	(28,158)	390,690
Asset-backed securities		26,764	25	(347)	26,442
Mortgage-backed securities		211,985	2,881	(1,985)	212,881
Total bonds	$	805,880	20,660	(30,736)	795,804

NOTES TO FINANCIAL STATEMENTS

	2008				
	Statement value	Gross unrealized gains	Gross unrealized losses	Fair value	
	(In thousands)				
U.S. Governments	$ 144,818	8,615	0	153,433	
All other governments	2,061	23	0	2,084	
Special Revenue & Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of U.S. Governments	18,086	34	(182)	17,938	23,554
Industrial & Miscellaneous	554,361	1,049	(45,586)	509,824	
Asset-backed securities	66,341	1	(1,632)	64,710	
Mortgage-backed securities	234,667	598	(8,364)	226,901	
Total bonds	$ 1,020,334	10,320	(55,764)	974,890	

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 or guarantor'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. Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, 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 fundamental credit problems of the issuer, or from a downward movement in the market as a whole, and the likelihood of recovering the amortized cost based on the current and short-term prospects of the issuer. Unrealized losses are determined to be temporary where such losses are primarily the result of market conditions, such as increasing interest rates, unusual market volatility, or industry-related events, and where the Company also believes it is probable that the Company will be able to collect all amounts when due in accordance with the contractual terms of the investment and, furthermore, has the intent and ability to hold the investment until the market recovers or maturity.

The bonds shown in the table below, nearly all of which are rated "A" or better, or are U.S. government agency mortgage-backed obligations and which, therefore, have minimal credit risk, 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 the securities until they recover in value or mature, the Company does not consider the bonds to be other-than-temporarily impaired at December 31, 2009.

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, 2009 and 2008, the gross unrealized losses segregated between those that were in a loss position for more than twelve months and those that were in a loss position for less than twelve months were as follows:

NOTES TO FINANCIAL STATEMENTS

	2009				
	Number of issues		Gross unrealized losses		Fair Value
	(In thousands)				
Bonds in a loss position more than 12 months:					
Special Revenue & Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of U.S. Governments	1	$	(225)		3,620
Industrial & Miscellaneous[1]	4		(28,155)		146,146
Asset-backed securities	2		(287)		2,916
Mortgage-backed securities	5		(1,938)		26,883
	12		(30,605)		179,565
Bonds in a loss position less than 12 months:					
Special Revenue & Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of U.S. Governments	4	$	(21)		3,781
Industrial and Miscellaneous	1		(3)		907
Asset-backed securities	2		(60)		21,884
Mortgage-backed securities	16		(47)		25,963
	23		(131)		52,535
Total bonds in a loss position	35	$	(30,736)		232,100

NOTES TO FINANCIAL STATEMENTS

	2008				
	Number of issues		Gross unrealized losses		Fair Value
	(In thousands)				
Bonds in a loss position more than 12 months:					
Industrial & Miscellaneous[1]	4	$	(37,985)		210,321
Asset-backed securities	4		(1,499)		41,388
Mortgage-backed securities	4		(5,522)		13,041
	12		(45,006)		264,750
Bonds in a loss position less than 12 months:					
Special Revenue & Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of U.S. Governments	2	$	(182)		4,773
Industrial & Miscellaneous	28		(7,601)		201,464
Asset-backed securities	4		(133)		7,835
Mortgage-backed securities	17		(2,842)		120,171
	51		(10,758)		334,243
Total bonds in a loss position	63	$	(55,764)		598,993

[1] Includes three Berkshire Hathaway Group ("Berkshire") (which is rated "AA") bonds with gross unrealized losses of $27.5 million and fair values of $138.8 million at December 31, 2009 and with gross unrealized losses of $38.0 million and fair values of $206.3 million at December 31, 2008.

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.

During 2009, the Company recognized $1.3 million of realized losses related to other-than-temporary impairment writedowns of loan-backed bonds because the present value of cash flows expected to be collected was less than the amortized cost of the security.

The Company's holding at December 31, 2009 in a loan-backed bond which recognized an other-than-temporary impairment because the present value of cash flows expected to be collected was less than the amortized cost of the security is identified below (in thousands):

CUSIP		Amortized cost before impairment		Impairment recognized		Amortized cost after impairment		Fair Value
23242MAA9		$ 1,439		210		1,229		1,204

E. Repurchase Agreements and/or Securities Lending Transactions
None.

F. Real Estate
None.

NOTES TO FINANCIAL STATEMENTS

G. **Investments in Low-income Housing Tax Credits**
None.

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

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

7. INVESTMENT INCOME

The Company's accrued investment income is all less than 90 days past due and accordingly is treated as an admitted asset as of December 31, 2009.

8. DERIVATIVE INSTRUMENTS

None.

9. INCOME TAXES

The components of the Company's net deferred tax asset are as follows:

	December 31, 2009	December 31, 2008
	(in thousands)	
Total gross deferred tax assets	$ 764,767	$ 726,296
Total deferred tax liabilities	1,576	3,088
Net deferred tax asset	763,191	723,208
Deferred tax asset nonadmitted	763,191	723,208
Net admitted deferred tax asset	$ 0	$ 0
Increase in nonadmitted asset	$ (39,983)	

All deferred tax liabilities were recognized.

The Company's income taxes incurred consist of the following major components:

	December 31, 2009	December 31, 2008
	(in thousands)	
Federal	$ (600)	$ (10,003)
Foreign	0	0
Federal and foreign income taxes incurred	$ (600)	$ (10,003)

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

	December 31, 2009	December 31, 2008
	(in thousands)	
Deferred tax assets:		
Loss carryforwards	$ 661,382	$ 631,026
Investments	48,168	44,542
Accrued liabilities	29,659	16,766
Receivables	11,933	15,101
Section 197 intangibles	5,837	6,895
Reserves	2,444	5,351
Other	5,344	6,615
Total deferred tax assets	764,767	726,296
Nonadmitted deferred tax assets	763,191	723,208
Admitted deferred tax assets	1,576	3,088
Deferred tax liabilities:		
Investments	1,301	2,363
Salvage and subrogation	275	725
Total deferred tax liabilities	1,576	3,088
Net admitted deferred tax asset	$ 0	$ 0

NOTES TO FINANCIAL STATEMENTS

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

	December 31, 2009	December 31, 2008	Change
	(in thousands)		
Total deferred tax assets	$ 764,767	$ 726,296	$38,471
Total deferred tax liabilities	1,576	3,088	(1,512)
Net deferred tax asset	$ 763,191	$ 723,208	39,983
Tax effect of unrealized gains (losses)			0
Changes in net deferred income tax			39,983

The provision for Federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory Federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	December 31, 2009
	(in thousands)
Provision computed at statutory rate	$ (38,858)
Investments	(5,182)
Receivables	2,547
Other	910
Total	$ (40,583)
Federal and foreign income taxes incurred	$ (600)
Change in net deferred income taxes	(39,983)
Total statutory income taxes	$ (40,583)

At December 31, 2009, the Company had $1,867 million of operating loss carryforward which originated and expires as follows:

Origination Year	Expiration Year	Amount
		(in thousands)
2000	2020	$ 179,079
2001	2021	$ 404,748
2002	2022	$ 38,885
2003	2023	$ 211,668
2004	2024	$ 399,689
2005	2025	$ 177,705
2006	2026	$ 178,657
2007	2027	$ 91,136
2008	2028	$ 105,730
2009	2029	$ 80,077

At December 31, 2009, the Company had $22.3 million of capital loss carryforward which originated and expires as follows:

Origination Year	Expiration Year	Amount
		(in thousands)
2004	2009	$ 21,078
2007	2012	$ 1,211

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

Tax returns for the years through 2005 are closed for Internal Revenue Service ("IRS") examination. The Company is not currently under examination by the IRS for any open tax years.

NOTES TO FINANCIAL STATEMENTS

The Company files as part of a consolidated Federal income tax return which includes the Company as the common parent corporation and includes or included the following affiliated entities: American Motorists Insurance Company ("AMICO"), AMICO Realty Corporation ("AMICO Realty"), Kemper Casualty Insurance Company ("KCIC"), Kemper International Corporation ("KIC"), Kemper Insurance Company of Texas ("KICT"), Kemper Realty Corporation, Kemper Technology Services, Inc., LGA-17, Inc., Lou Jones & Associates, and Specialty Surplus Insurance Company ("SSIC").

The Company's written tax allocation agreement, which has been approved by the Company's Board of Directors, provides for Federal income taxes to be paid to or recovered from the Company based on each subsidiary company's taxable income or taxable loss as if the subsidiary were filing a separate Federal income tax return. This agreement provides that in the event of a Federal income tax recovery which is greater than the amount recoverable from the other companies in the consolidated return or from the IRS, the funds available will be apportioned among all such companies entitled to a recovery on the basis of the relationship of each company's tax recovery to the total of all tax recoveries of the companies in a tax loss position. Settlement among the companies will be made following the filing of the consolidated tax return.

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

The Company is the lead company of the Kemper Insurance Companies. As a mutual insurance company, the Company has no stockholders and no parent company. The Company and affiliates are disclosed in the organizational chart of Schedule Y. Common stock investments in affiliates or subsidiaries are disclosed in Schedule D under the caption "Parents, Subsidiaries and Affiliates." The Company's investment in an affiliate joint venture is disclosed in Schedule BA. Reinsurance relationships between the Company and its affiliates are disclosed in Schedule F. Certain commitments and contingencies are set forth in Note 14. The Company's relationship with American Manufacturers Mutual Insurance Company ("AMM"), an affiliated mutual insurance company that shares common management and directors with the Company, is further described in Note 25.

Significant Affiliate and Former Affiliate Transactions in 2009 and 2008

Affiliate Support for D&O Insurance

In connection with a portion of the Company's and its affiliates' corporate insurance program, SSIC, a wholly owned subsidiary of the Company, extended a reinsurance agreement, effective December 31, 2007 for a three-year period (2008, 2009, and 2010), facultatively reinsuring a corresponding three-year A-side management liability policy issued by an unaffiliated third party to the Company and AMM. SSIC maintains in a trust the $15.0 million reinsurance premium it received from its affiliates, plus an additional $0.4 million, for the benefit of the third-party insurer to collateralize the reinsurance obligation. The Company's income, surplus, and liquidity were unchanged by the extension, except to the extent of a $275 thousand administrative fee paid to the unaffiliated third party in 2008 and except as described in the following paragraph.

As a result of favorable loss experience under the D&O insurance program for the Company and its affiliates, SSIC recorded a loss and LAE reserve release of approximately $15 million in 2008. The release increased surplus of the subsidiary, and consequently the surplus of its parent, by the same amount, but it had no impact on the subsidiary's or the Company's liquidity as the previously described trust securing the subsidiary's related reinsurance obligations continued in place. If any claims arise that are covered under the affiliate D&O insurance program, the Company's surplus would then be reduced by any D&O liability, including loss and LAE reserves, which would then be recorded by the subsidiary.

Broadspire Transaction and Claim Handling

In July 2003, the Company sold its NATLSCO, Inc. subsidiary and related claim service operations (together subsequently renamed "Broadspire"). The 2003 sales agreement with Broadspire provided for certain contingent consideration (earn-out) based on the revenue and net income of the sold business for a four-year period beginning January 1, 2004 (the "Earn-out Period"). The sales agreement required the acceleration and payment of remaining earn-out if Broadspire sold assets of NATLSCO during the Earn-out Period. In an arbitration proceeding, the Company is disputing the accuracy of the amounts paid by Broadspire for the 2004 and 2005 earn-out periods. In addition, in a series of three transactions between December 2004 and November 2006, Broadspire disposed of NATLSCO and certain of its assets. In 2006, Broadspire paid $3.6 million as a buy-out of the remaining earn-out (due to the asset dispositions) that Broadspire admits is due under the sales agreement. The Company is disputing the accuracy of Broadspire's calculations, and is involved in arbitration proceedings with Broadspire related to the asset sales. In accordance with the Manual, the Company is not carrying an admitted asset for any future recoveries from Broadspire.

NOTES TO FINANCIAL STATEMENTS

Also in connection with the 2003 transaction, the Company entered into a long-term claim administration agreement with Broadspire for the servicing of most of the Company's existing workers' compensation, general liability, and employer liability claims. The Company paid in advance for the future servicing of such claims, a portion of which payment was placed in trust by Broadspire to be drawn down monthly over an eight-year period beginning January 1, 2004. The Company was not obligated to add any assets to the trust. At December 31, 2009, the amount remaining in this trust was $4.5 million, down from $6.8 million one year earlier. The Company receives the interest on Broadspire's trust assets. In accordance with a prescribed accounting practice more fully described in Note 1, the Company reflects as an admitted asset the remaining prepaid amount for claim handling services; that amount has declined to approximately $12.0 million as of December 31, 2009 from $13.7 million as of December 31, 2008.

Kemper Auto & Home: Renewal Rights and Cut-Through

Following the sale in 2002 of the Company's and its affiliates' U.S. personal lines business to Unitrin and its subsidiaries including Trinity Universal Insurance Company ("Trinity"), Unitrin operates this business with a 100-year license to use the Kemper name in personal lines. Unitrin did not acquire then in-force or previously issued policies nor renewal rights to policies issued in Alaska, Michigan, Delaware, or Arkansas or to policies produced by independent agents whose authority to write new business had been terminated prior to April 19, 2002. Pursuant to the 2002 sale agreement, Unitrin continues to monitor and service the Company's run-off of its retained personal lines policies. Through early 2005, the Company and certain of its affiliates fronted for Trinity, at Trinity's expense, personal lines policies in states where Trinity (or an affiliate) was seeking licenses and making form and rate filings necessary for the issuance of policies in place of renewals of policies originally issued by the Company or its affiliates. As of December 31, 2009 and 2008, respectively, approximately $3.5 million and $6.6 million of the Company's gross policy liabilities including ULAE were from fronted policies that are 100% reinsured by (ceded to) Unitrin. Not only are these reinsured policies fully administered (including claims handled) by Unitrin subsidiaries, such policies are covered by a cut-through provision allowing the insureds to seek direct recourse to a Unitrin subsidiary in the event of any insolvency of the Company.

Berkshire Cut-Through; Bond Facility; Claims Handling

In early 2003, shortly after the Kemper Insurance Companies were downgraded to below an "A" level, National Indemnity Company ("NICO"), a member of the "AA" rated Berkshire Hathaway Group ("Berkshire"), provided the Company and its affiliates with immediate access to cut-through agreements issued by NICO. The cut-through agreements were applied to certain standard commercial and specialty lines policies of insurance in-force as of December 23, 2002 and to certain new policies issued by certain of the Kemper Insurance Companies on and after December 23, 2002 until September 30, 2003. With respect to each policy to which the NICO cut-through agreement applies, the cut-through allows a Kemper insured to directly submit claims to NICO in the event the respective Kemper insurance company (as the issuer of the policy) is unable to pay such claims as a result of its insolvency or a court or regulatory order prohibiting claim payments due to the issuing company's financial condition.

As an agreed condition for NICO to provide the cut-through agreements, the Company and its affiliates immediately provided collateral available to NICO if and to the extent NICO makes any payments under any cut-through agreements. The collateral includes offset rights granted to NICO for reinsurance proceeds payable by either NICO or its affiliate, National Fire & Marine Insurance Company ("National Fire"), to the Company or its affiliates; a collateral trust initially in an amount of $251.1 million as of the end of June 2003, which amount was subject to quarterly reductions by payments of claims (losses and LAE) and mid-term cancellations of policies (the trust amount decreased to zero in the third quarter of 2006); and investments of $257.3 million in Berkshire corporate obligations (Schedule D admitted assets) which the Company pledged as security to Berkshire. The Berkshire corporate obligations were reduced to $166.2 million by year-end 2009, with cash in the amount of the reduction released to the Company in accordance with existing agreements. The investments were further reduced in early 2010, by approximately $7.8 million, due to a mandatory redemption payment by Berkshire to the Company. If NICO makes no payments under the cut-through agreements, then of the pledged investments, $100.0 million matures in March 2025. The remaining amount is subject to mandatory redemption annually provided the Company is paying claims on policies covered by the cut-through agreements and NICO is not required to pay any amounts under any cut-through agreement. Because the Berkshire corporate obligations have been pledged as collateral to Berkshire, the Company does not have the intent or, in the absence of a voluntary agreement from Berkshire, the ability to dispose of the investments prior to maturity or redemption. At December 31, 2009 and 2008, respectively, $24.8 million and $35.1 million of the Company's gross policy liabilities including ULAE

NOTES TO FINANCIAL STATEMENTS

were protected by the NICO cut-through. Note 22 and Schedule F show that the Company cedes to the Berkshire Hathaway Group (group 31) liabilities totaling $197.3 million at December 31, 2009.

NICO also separately provides, for initial and annual fees, an appeals bond facility that the Company and its affiliates use primarily in connection with litigated claims. The Company fully collateralizes the appeal bonds with the pledge of an investment in a Berkshire corporate obligation (Schedule D admitted asset) purchased from Berkshire. At December 31, 2009 and 2008, respectively, the Company pledged $75 thousand and $60.1 million of its assets as collateral for this purpose. The pledged amounts can and do fluctuate, sometimes materially, during each accounting period.

In connection with a now commuted reinsurance arrangement in 2001, the Company entered into a long-term claim administration agreement with National Fire for the servicing of portions of the Company's and its affiliates' existing asbestos and environmental claims. The Company paid in advance for the future servicing of such claims. In accordance with a prescribed accounting practice more fully described in Note 1, the Company reflects as an admitted asset the remaining prepaid amount for such claim handling services; that amount has declined to approximately $4.6 million at December 31, 2009 from $5.7 million as of December 31, 2008.

SeaBright Insurance Company

Following the 2003 sale by the Company of 100% of the capital stock of Kemper Employers Insurance Company ("KEIC") to SeaBright Insurance Holdings, Inc., the purchaser renamed KEIC as SeaBright Insurance Company ("SeaBright"). As part of the 2003 sale transaction, the Company provided a stop loss reinsurance agreement to SeaBright and collateralized that reinsurance with a collateral trust. The Company's assets in that collateral trust totaled approximately
$3.8 million and $2.8 million at December 31, 2009 and 2008, respectively; the increase in 2009 was due to a deposit of additional assets reflecting revised actuarial calculations of the secured liabilities, in accordance with the existing 2003 agreements. SeaBright also provides, for agreed fees, certain claim handling services with respect to approximately 340 claims (accounting for $16.7 million of net outstanding loss and LAE reserves at December 31, 2009) under policies issued by the Company's Eagle insurance operations prior to the 2003 sale of KEIC. (The Eagle operations merged into the Company's AMICO subsidiary in 2004.)

Canada Branch Office

Located in Toronto and also in run-off since early 2003, the Company's Canadian branch contributed $0.7 million to the Company's statutory net income in 2009 and $1.0 million in 2008. The Company's Canadian branch accounted for approximately $8.5 million of the Company's statutory surplus at December 31, 2009, up from $6.7 million at December 31, 2008. The increase in surplus accounted for by the branch was primarily due to the strengthening of the Canadian dollar versus the U.S. dollar and statutory net income.

Assets of the Company's Canadian branch, reflected in the Company's balance sheet, totaled $9.3 million at December 31, 2009, up from $8.5 million at December 31, 2008. The increase in the Company's Canadian assets during 2009 was primarily due to a stronger Canadian dollar. This 2009 foreign currency impact was approximately $1.0 million.

Most of the remaining assets of the branch in Canada are encumbered in trust (see Note 14). Canadian regulatory approvals are required for any releases of assets from the trust, including releases to pay Canadian claims and expenses.

Other International Operations

The Company's other international operations during 2009 consisted of an Australian subsidiary, in run-off for more than a decade. The Australian subsidiary accounted for approximately $0.9 million of the Company's statutory surplus at December 31, 2009. The Company has guaranteed most policies issued in Australia (see Note 14), and the Company also reinsures most of those policies for any losses excess of $50 thousand. The Australian subsidiary remains available for sale.

Impairment Write-downs

The Company did not have any impairment writedowns on investments in subsidiaries during 2009 or 2008.

NOTES TO FINANCIAL STATEMENTS

Return of Capital and Income Dividends

Dividend distributions from the Company's insurance subsidiaries to the Company are restricted by various state insurance laws. In Illinois, where most of the Company's subsidiaries are domiciled, if such dividend, together with other distributions during the 12 preceding months, would exceed the greater of (a) 10% of the insurer's statutory surplus as regards policyholders as of the preceding December 31, or (b) the statutorily adjusted net income for the preceding calendar year, then such proposed dividend must be reported to the Director of the Department of Insurance (the "Director of the Department") at least 30 days prior to the proposed payment date and may be paid only if not disapproved. The Illinois insurance laws also prohibit, in the absence of approval by the Director of the Department, the payment of any dividend to the extent the dividend would exceed the stock insurance company's earned surplus (such surplus being calculated as exclusive of most unrealized gains). Corrective Orders issued by the Department further restrict the payment of dividends by prohibiting any transfers of assets, including any dividend, to the Company from any Illinois domiciled insurance company affiliate without the approval of the Director of the Department.

The Company recorded return of capital and income dividends from the following wholly owned subsidiaries during 2009 and 2008:

	2009	2008
	(in thousands)	
SSIC[1]	$12,000	$ 1,000
KCIC[2]	1,500	3,000
KIC	522	469
LGA-17, Inc.	62	0
AMICO[3]	0	5,009
Total	$14,084	$ 9,478

[1]SSIC's Board of Directors approved a $12.0 million income dividend payable November 30, 2009, and a $1.0 million income dividend payable November 28, 2008, to the Company.

[2]KCIC's Board of Directors approved a $1.5 million return of capital dividend payable November 30, 2009, and a $3.0 million return of capital dividend payable November 28, 2008, to the Company.

[3]AMICO's Board of Directors approved a $4.5 million return of capital dividend and a $0.5 million income dividend payable November 28, 2008, to the Company.

Intercompany Transactions

The Company reported the following amounts due from (to) affiliates at December 31, 2009 and 2008:

Affiliate	December 31, 2009	December 31, 2008
	(in thousands)	
AMICO	$ (25)	$ 173
AMM	237	215
SSIC	5	(42)
KCIC	(245)	(397)
KICT	2	2
All other affiliates	277	336
Total due from (to) affiliates	$ 251	$ 287

The Company's policy is to settle intercompany balances with domestic insurance affiliates on a semi-annual basis. The Company provides certain facilities and administrative services to its subsidiaries and affiliates.

11. **DEBT**

None.

12. **RETIREMENT PLANS, DEFERRED COMPENSATION, POST EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS**

A. Defined Benefit Plan

The Company no longer maintains a retirement plan for its employees. In late 2004, the Pension Benefit Guaranty Corporation (the "PBGC"), as the federal corporation responsible for guaranteeing payment of pension benefits, took control of the Company's defined benefit pension plans. The then vested benefits under the pension plans were insured through the PBGC; the benefit levels for the majority of the approximately twelve thousand plan participants were not significantly affected by the PBGC action; and payments to retirees have continued uninterrupted at the insured levels.

NOTES TO FINANCIAL STATEMENTS

Future retirees will receive their vested insured pension benefits from the PBGC when they are eligible to retire.

B. Defined Contribution Plans

Profit Sharing Plan

Beginning in 2005, the Company ceased matching contributions to the Company's 401(K) plan.

Retention Plans

The Company's workforce was 206 employees at December 31, 2009, reduced from 231 employees at December 31, 2008. To help stabilize the workforce, the Company maintains a retention plan providing for scheduled quarterly payments. The retention payments for 2009 and 2008 totaled $4.9 million and $5.0 million, respectively.

Incentive Plans

The Company has maintained since 2004 an annual incentive plan linked to successfully achieving or exceeding certain targets as anticipated from time to time in the Company's run-off plan (the "Short-Term Plan"). In addition to the Short-Term Plan, the Company, with final approval from the Division in 2006, established a long-term incentive plan linked to the successful maintenance of the commercial run-off as anticipated in the Company's run-off plan. The Company has accrued approximately $4.6 million and $4.5 million under the incentive plans at December 31, 2009 and 2008, respectively. Incentive plan payments totaled $7.0 million in 2009 and $6.0 million in 2008.

Restricted Stock, Other Deferred Compensation, and Stock Option Plans

The Company carried deferred compensation liabilities of approximately $0.2 million at December 31, 2009 and at December 31, 2008.

Postretirement Benefits

Since 2004, the Company does not provide postretirement benefits for its employees or retirees.

C. Multiemployer Plans
None.

D. Consolidated/Holding Company Plans
None.

E. Postemployment Benefits and Compensated Absences

The Company maintains an employee severance program which provides a maximum benefit of up to one year of salary depending on the level of an employee and service time with the Company. Severance liabilities are not reflected on the Company's balance sheet until a decision is reached that a specific employee or group of employees is to be terminated without cause. Severance payments in 2009 and 2008 totaled $1.4 million and $0.8 million, respectively, and severance liabilities recorded at December 31, 2009 and 2008 totaled $0.8 million and $1.4 million, respectively. In 2006, with the approval of the Department, the Company made a one-time deposit encumbering $4.75 million in a long-term retention trust to secure its contingent severance obligations.

The Company provides disability benefits to employees who were disabled when the Company self-insured its long-term disability plan. The obligation under this plan was $1.2 million and $1.1 million as of December 31, 2009 and 2008, respectively.

F. Impact of Medicare Modernization on Postretirement Benefits
None.

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

At December 31, 2009, unassigned surplus included unrealized capital gains of $35.1 million including unrealized foreign exchange capital losses of $0.4 million.

The Company had the following surplus notes issued and outstanding at December 31, 2009:

NOTES TO FINANCIAL STATEMENTS

			Amounts in thousands				
Interest Rate/ Description	**Issue Date**	**Maturity Date**	**Par or Face Value**	**Carrying Value of Surplus Notes**	**Interest Paid 2008-2009**	**Total Interest Paid**	**Accrued Interest 12/31/09**
9.15% 30-Year Notes	06/24/96	07/01/2026	$400,000	$ 399,123	$ 0	$238,612	$ 0
8.30% 40-Year Notes	11/21/97	12/01/2037	200,000	199,507	0	83,461	0
8.45% 100-Year Notes	11/21/97	12/01/2097	100,000	99,726	0	42,485	0
Total			$700,000	$ 698,356	$ 0	$364,558	$ 0

The unamortized discount at issuance has been charged directly against surplus. The unamortized discount amounted to $1.6 million at December 31, 2009 and 2008.

All surplus notes were issued pursuant to Rule 144A of the Securities Act of 1933. The Fiscal Agent for all surplus notes is BNY Mellon Trust Company of Illinois. Any payments of principal and interest are to be made by the Company through the Fiscal Agent or The Depository Trust Company, New York, New York. All surplus notes are unsecured and subordinated to all present and future indebtedness, policy claims, and prior claims of the Company. The surplus notes are not entitled to a sinking fund. As it relates to the surplus notes, the Company is not restricted from incurring any future indebtedness, policy claims, or prior claims. Under SAP, the surplus notes are part of surplus for financial statement purposes. The 30-Year notes and the 40-Year notes may not be redeemed at the option of the Company or any holder of the notes prior to maturity. Upon the occurrence and during the continuation of certain events, the Company has the right, if certain conditions are met, to shorten the maturity of the 100-Year notes, or subject to the prior written approval of the Director of the Department, to redeem them in whole but not in part.

Each payment of interest on and/or repayment of principal of the surplus notes may be made only with the prior approval of the Director of the Department, which approval will only be granted if, in the judgment of the Director of the Department, the financial condition of the Company warrants the making of such payments and the Company's policyholders' surplus reflects sufficient funds to cover the amount of such payment. The Director of the Department has denied the Company’s 2009 and 2008 requests for payment of interest on the surplus notes due on June 1 and July 1 and on December 1 and January 1. (See Note 14.) All payments of interest scheduled since January 1, 2003 have not been paid due to disapprovals by the Director of the Department based on the Company’s financial condition. The cumulative amount of interest that was scheduled to be paid but is unpaid, plus the amount otherwise accruing in 2009 for which scheduled interest payment dates have not yet arrived, totaled $433.6 million as of December 31, 2009. In accordance with SAP, this total amount is not reflected as a liability on the Company’s balance sheet as of December 31, 2009.

14. CONTINGENCIES

A. Contingent Commitments

Affiliate and Other Guarantees

The Company has provided guarantees of certain policy liabilities of its Australian and former Belgium subsidiaries, has issued its own policies to most policyholders of AMM, and has intercompany balances due certain affiliates. (See Note 10.) The Company is contingently liable for $339.2 million related to structured settlement annuities. (See Note 26.)

NOTES TO FINANCIAL STATEMENTS

Securities on Deposit/Encumbered Assets

Of the Company's cash and invested assets at December 31, 2009, $481.3 million are encumbered by being on deposit or held in trust or escrow arrangements, compared with $614.5 million one year earlier, as shown in the following table:

	December 31, 2009	December 31, 2008
Special Deposits/Encumbered Assets:		
State Deposits	$ 280,869	$ 332,671
NICO Cut-Through Collateral	166,178	184,115
NICO Appeal Bond Collateral	75	60,133
Canada Deposits	9,455	9,805
All Other	24,710	27,769
	481,287	614,493
Unencumbered Assets:		
Cash and Bonds	383,928	492,202
Affiliate Common Stock	59,602	68,938
Other Assets	6,996	6,773
	450,526	567,913
Cash and Invested Assets	$ 931,813	$ 1,182,406

The Company received releases of encumbered assets from states totaling $51.8 million and $78.6 million during 2009 and 2008, respectively. Releases reflect lower levels of liabilities of the Company that the state deposits have historically secured. There can be no assurance that there will be additional releases going forward.

Where required to post court bonds, including supersedeas or appeal bonds, or when using surety bonds to satisfy state deposit requirements, the Company, due to its financial condition, has had to post cash or other security totaling 100% of the bond. At December 31, 2009 and 2008, the Company had pledged invested and other assets of $0.6 million and $61.4 million, respectively, for such bonds, most of which are issued by NICO. (See Note 10.)

Of the Company's invested assets at December 31, 2009, $166.2 million provide collateral for Berkshire affiliates related to the NICO cut-through agreements. (See Note 10.) This amount reflects a $17.9 million reduction from a year earlier. Of the cut-through encumbered assets at December 31, 2009, $66.2 million are subject to release to the Company annually as claim payments are made on policies to which the NICO cut-through agreements are attached so long as NICO is not required to pay any amounts on Kemper policies that have the benefit of cut-through agreements.

The Company is contingently liable to provide up to an estimated additional $11.1 million in collateral due to ratings triggers in reinsurance agreements where it is a reinsurer. Of this amount, $3.5 million has been funded with assets of an unrelated third party, Alea Bermuda Ltd. ("Alea"), for business where the Company from late 1999 to year-end 2001 fronted assumed reinsurance contracts in the U.S. for Alea. Alea's insurance ratings fell to below the "A" level in 2005, and Alea and its affiliates subsequently went into run-off status. Alea's reinsurance obligations to the Company for the fronted liabilities are secured by collateral trust assets of Alea in the amount of $70.0 million at December 31, 2009. Alea also has handled claims on behalf of the Company since 1999 on both the fronted liabilities and, at December 31, 2009, $34.2 million of other assumed reinsurance liabilities written by the Company from 1997 through 1999. The Company is dependent on Alea for the claim handling and its related accounting.

In addition to the encumbrances applicable to the Company's cash and invested assets which are reflected in the preceding table and in Schedule E, Part 3, Special Deposits, the Company has certain reinsurance related assets which have been pledged or otherwise encumbered. Such encumbered assets include funds held by or deposited with reinsured companies ($11.2 million, as shown on line 14.2 on the Company's balance sheet at December 31, 2009), certain reinsurance recoverables that serve as additional security for the NICO cut-through (see Note 10), and reinsurance recoverables for claims paid and to be paid by certain Markel Corporation subsidiaries related to business written by companies that the Company acquired from Markel in 1998 and 1999 ($0.1 million at December 31, 2009). In addition, one of the Company's wholly owned subsidiaries, SSIC, which was a Markel subsidiary until January 2000, has granted to a Markel entity a security interest in SSIC's reinsurance recoverables related to claims from before 2000 that

NOTES TO FINANCIAL STATEMENTS

Markel is responsible for handling and paying; SSIC's related encumbered reinsurance assets totaled $1.5 million at December 31, 2009.

B. Guaranty Fund and Other Assessments

The Company is liable for guaranty fund assessments related to certain unaffiliated companies that have become insolvent during the years 2009 and prior. The Company's financial statements include provisions for all known assessments that are expected to be levied against the Company as well as an estimate of amounts (net of estimated future premium tax recoveries) that the Company believes it will be assessed in the future for which the insurance industry has estimated the cost to cover losses to policyholders. The Company is also contingently liable for any future guaranty fund assessments related to insolvencies of unaffiliated insurance companies for which the insurance industry has been unable to estimate the cost to cover losses to policyholders. No specific amount can be reasonably estimated for such insolvencies as of December 31, 2009. As of December 31, 2009 and 2008, respectively, the Company accrued $1.7 million and $2.4 million for such guaranty fund assessments. The Company also established a liability for premium and loss based assessments of $7.0 million as of December 31, 2009, compared with approximately $29.2 million as of December 31, 2008. (See Note 1.)

C. Gain Contingencies

None.

D. Claims Related Extra Contractual Obligations and Bad Faith Losses Stemming from Lawsuits

The Company paid the following amounts in the reporting period to settle claims related extra contractual obligations or bad faith claims stemming from lawsuits.

	Direct
Claims related ECO and bad faith losses paid during the reporting period	$ 880,447

Number of claims where amounts were paid to settle claims related extra contractual obligations or bad faith claims resulting from lawsuits during the reporting period.

(a) 0-25 Claims	(b) 26-50 Claims	(c) 51-100 Claims	(d) 101-500 Claims	(e) More than 500 Claims
	X			

Indicate whether claim count information is disclosed per claim or claimant.

(f) Per Claim [X] (g) Per Claimant [ ]

NOTES TO FINANCIAL STATEMENTS

E. All Other Contingencies

Ratings

In early 2005, at the Company's request, A.M. Best ceased rating 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 & Poors last downgraded the Company's financial strength ratings to Caa3 (very poor) and CCC (very weak), respectively, when, at the Company's request, they ceased rating the Company.

The downgrades to below A- beginning in late 2002 effectively ended the Company's and its affiliates' ability to write most new commercial lines business or retain existing policyholders. In early 2003, the Company unsuccessfully attempted to continue marketing commercial insurance policies by providing certain of the policies with the benefit of cut-through agreements from NICO. In the first half of 2003, therefore, as a result of a combination of various business factors including the ratings downgrades and the Company's deteriorating statutory surplus, the Company substantially ceased underwriting activities other than as required by contract or law and except for its Eagle insurance subsidiaries which ceased as of September 30, 2003. Since July 2003, the Company and most of its affiliates have been subject to Corrective Orders by the Department not to write any new or renewal business except as necessary to comply with contractual commitments or as expressly permitted by the Department.

Risk-Based Capital and Risk of Insolvency

The NAIC utilizes a risk-based capital ("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 six years (and for 2006 through 2008 excluding the benefit of prescribed and permitted accounting practices), the Company's level of surplus has been at the "mandatory control level" under the RBC rules. At this level, the Department has substantial authority to exercise control over the Company and its affiliates. The Department is mandated to place a company at this level under its control, except where, as is the case with the Company, 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 Department has discretion to allow the continued run-off.

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

Risks and uncertainties involved in implementing the run-off plan include the needs 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 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 the Company to collateralize its unsecured obligations or to not timely release collateral back to the Company. Therefore, no assurance can be given that the run-off plan will continue to be successfully implemented.

The Department continues to closely monitor the Company's progress in achieving the objectives of the run-off plan. As has been the case for almost seven years, the Department retains the discretion at any time to seek to place the Company in a formal insolvency proceeding (conservatorship or receivership, rehabilitation or liquidation). The risk of a proceeding would be

NOTES TO FINANCIAL STATEMENTS

exacerbated if the Company fails to have sufficient liquid assets to meet its current obligations, or if the Company's reported liabilities at any time exceed its reported assets, or if the Company fails to meet the surplus and liquidity projections set forth in the run-off plan.

The Company and certain of its subsidiaries and affiliates have 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, AMM entered into a consent order restricting AMM from writing business in Alabama. The Company was previously subject to such an order. In addition, in 2005, the Company agreed to its license being suspended in Tennessee, with the Company permitted to maintain its license but not permitted to write any new business. In 2006, the Company appealed its license suspension in the State of North Carolina as not being in the best interests of the Company's policyholders or claimants; no action has yet been taken on the appeal. 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.

Surplus Considerations

At December 31, 2009, the Company's balance sheet shows that its admitted assets exceed its liabilities by $8.1 million, a $105.0 million decline in surplus from the level reported one year earlier.

The primary reason for the decline in surplus in 2009 were increases to reserves for incurred losses and LAE attributed to insured events in prior years principally in the workers' compensation line of business. The Company increased its prior accident years loss and LAE reserves during 2009 by approximately $87.2 million, net of reinsurance and after discount, policy buybacks, novations, and reinsurance commutations. (See Note 24.) Further contributing to the decline in surplus in 2009 was an increase in an estimated liability of approximately $56 million due to a dispute with a reinsurer. (See Notes 21 and 22.)

During 2008 and 2009, the Company's operating and other expenses (including amortization of the discount on loss reserves) have exceeded operating revenue (investment income, earned premium, and other income) by between $5.0 million and $6.0 million per month.

Reflecting the durations and interest rates of the Company's existing fixed income portfolio, market conditions, and the Company's anticipated liquidity needs, the Company's 2009 net effective yield on its cash and invested assets, excluding affiliate investments, declined to approximately 3.5% from the 4.0% rate in 2008. The Company uses a 4.2% rate to discount its loss and LAE reserves pursuant to an accounting practice prescribed by the Department. (See Note 1.A.) There can be no assurance that the Company's investment yields will remain at or near such level in future periods.

Surplus-enhancing transactions and operational improvements together produced benefits to surplus that partially offset the reduction in surplus caused by expenses exceeding revenues and by additions to loss and LAE reserves. Although involving use of liquidity (see *Liquidity Considerations* below), policy buybacks, novations of commercial policies and other settlements by the Company of liabilities for less than carried reserves remain a significant focus of the Company's management and its run-off plan at this time. Additionally, the run-off initiatives include assumed reinsurance commutations which are similar to direct policy buybacks, in that in both types of transactions the Company, whether in the role of insurer or reinsurer, can realize surplus, liquidity, or other benefits as the Company is released from its liabilities. During 2009, policy buybacks, novations, and assumed reinsurance commutations collectively added approximately $23.9 million to the Company's surplus, for a net decrease in liquidity of approximately $8.8 million. In 2008, they added approximately $61.6 million to surplus for a net decrease in liquidity of approximately $0.7 million.

Buybacks, novations, and assumed reinsurance commutations resulted in the Company's gross and net loss and LAE reserves declining by $54.7 million and $39.9 million, respectively, in 2009 and by $218.2 million and $118.3 million, respectively, in 2008. Combined with other transactions as well as normal claim payments, other settlements, including certain other reinsurance commutations, and changes to reserves, the Company's total nominal gross and net discounted loss and LAE reserves were $2.1 billion and $890 million, respectively, at December 31, 2009, compared with $2.3 billion and $1.0 billion, respectively, at December 31, 2008.

NOTES TO FINANCIAL STATEMENTS

In 2009 and 2008, the Company's surplus benefited by $11.2 million and $12.1 million, respectively, due to collections of both (i) previously nonadmitted premiums in collection and (ii) other policy related assets, in excess of write-offs and writedowns of similar admitted assets.

The Company's surplus at year ends 2009 and 2008 reflected, among other items, certain one-time, surplus-enhancing, events. If the Company is unable to maintain adequate levels of statutory surplus, which under the run-off plan requires the continuous generation of surplus from transactions to offset the monthly surplus diminution from operating expenses and loss reserve discount amortization, then the commercial run-off plan may end with the Company being placed into a formal proceeding.

Liquidity Considerations

As a run-off company, the Company's cash outflows exceed its cash inflows. There are a number of factors that could adversely affect the Company's liquidity position and its adequacy. Accelerated claim payments or imposition of requirements to secure future obligations by court order or otherwise, deterioration of reinsurance collections, increases in operating expenses, and other unanticipated strains on liquidity could cause the Company to have insufficient liquid and unencumbered assets to continue to pay obligations as they become due. As liquidity declines, there can be no assurance that formal proceedings would not be initiated by the Department significantly before the Company's projected liquidity would reach zero. The Company's $450.5 million of unencumbered assets at December 31, 2009 shown in the table under ***Securities on Deposit/Encumbered Assets*** above in this Note 14 includes approximately $66.6 million that, although unencumbered, are not necessarily immediately available funds, as this amount consists primarily of assets held in subsidiaries.

The Company is addressing potential future liquidity challenges by taking a number of actions, including, but not limited to, seeking the release of what the Company believes is excess collateral held by various governmental agencies, merging or dissolving subsidiaries, converting illiquid assets to liquid assets, negotiating liquidity-enhancing novations, continuing to collect on its reinsurance, and evaluating the possibility of, and implementing certain, reinsurance commutations. The Company's run-off plan anticipates that portions of its encumbered assets will continue to be released as claims are paid and the remaining loss and LAE reserves are reduced. There are significant uncertainties with respect to the legal and regulatory issues related to releases of encumbered assets.

Prompt collection of reinsurance recoverables is a primary driver of the Company's liquidity. Reinsurance provided approximately $188.7 million of liquidity to the Kemper Insurance Companies during 2009 and approximately $399 million during 2008. The Company's reinsurance recoverables totaled approximately $1.0 billion at December 31, 2009 and 2008.

The Company recognizes the general principle that commutations of ceded reinsurance, if executed, could substantially increase liquidity. Reinsurance commutations, however, would also be anticipated both to decrease surplus, since commutations involve present value or other discounting in return for cash, and to increase the risks of any future adverse loss and LAE reserve development, since the reinsurers would no longer share in such developments. Management remains focused on managing liquidity, surplus, and the balance between them.

Other

As described in Note 13, the Company issued $700.0 million in aggregate principal amount of surplus notes in 1996 and 1997. The Company is required to seek the approval of the Director of the Department to make each and any semi-annual payments of interest on the surplus notes. Beginning in 2003, the Director of the Department has denied the Company's requests for payment of interest on the surplus notes. Following the non-payment of interest in 2003, several lawsuits were filed in the Circuit Court of Cook County, Illinois by certain holders of surplus notes aggregating approximately $368 million and naming, as defendants, the Company, various directors or former directors of the Company, and Kemper Commercial Insurance Company, a now dissolved subsidiary of the Company. One case was voluntarily dismissed by the plaintiff, and the other two were consolidated in 2004. The Company was not served with the consolidated amended complaint. This complaint alleged that the Company breached the agreements relating to the surplus notes by adopting a divestiture plan to sell all or substantially all of the Company's assets and ongoing businesses without requiring the acquiring entities to assume the Company's surplus notes or obtaining the consent of a majority of the holders of the surplus notes. The complaint further alleged that the directors breached their fiduciary duties and committed corporate waste, and that the Company engaged in a fraudulent conveyance. The complaint, among other things, sought a declaratory judgment of the parties' rights, an injunction against further asset sales, and

NOTES TO FINANCIAL STATEMENTS

monetary damages. In May 2006, the Circuit Court entered a stipulation and order whereby the lawsuit was dismissed without prejudice with leave to reinstate no earlier than October 2008.

Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from other litigation, income tax, and other matters are not currently considered material in relation to established reserves, anticipated insurance and reinsurance recoverables, and the financial condition of the Company, 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.

15. LEASES

The Company leases office space and equipment under various non-cancelable operating lease agreements. Rental expense for 2009 and 2008 was $3.8 million and $3.9 million, respectively.

At December 31, 2009, the total aggregate minimum rental commitments on operating leases is $3.8 million. Excluding the impact of any decisions to exercise options to reduce rented office space, the Company's future minimum rental commitments are as follows:

Year Ending December 31		Operating Leases		
		(in thousands)		
2010			$ 1,388	
2011			1,030	
2012			1,070	
2013			270	
			$ 3,758	

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

None.

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

None.

18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

None.

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

None.

20. OTHER ITEMS

A. Extraordinary Items

None.

B. Troubled Debt Restructuring: Debtors

None.

C. Other Disclosures

None.

D. Nature of Reasonably Possible Uncollectible Balances for Assets Covered by SSAPs No. 6, No. 47 or No. 66

None.

E. Business Interruption Insurance Recoveries

None.

F. State Transferable Tax Credits

None.

G. Subprime-Mortgage-Related Risk Exposure

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

NOTES TO FINANCIAL STATEMENTS

At December 31, 2009, the Company's subprime exposure includes only residential mortgage-backed securities owned by the Company and one of its subsidiaries as summarized below (in thousands):

	Cost	Book/Adjusted Carrying Value	Fair Value
Company investments	$ 12,074	12,142	10,378
Subsidiary investments	649	647	542
Total	$ 12,723	12,789	10,920

The Company did not recognize any other-than-temporary impairment losses during 2009 related to subprime mortgages and does not expect losses, related to its subprime exposure summarized above, due to potential sales to meet future cash flow requirements.

The Company, in consultation with its engaged portfolio manager, continues to monitor the delinquency rates of securities collateralized with subprime mortgages and the potential for losses in comparison with expected recoveries.

21. EVENTS SUBSEQUENT

In 2007, the Company commenced an arbitration proceeding against a reinsurer (the "Reinsurer") seeking to collect amounts due the Company pursuant to certain excess of loss reinsurance agreements encompassing primarily workers compensation losses and LAE. In late December 2009, an arbitration panel entered an Interim Order directing recalculation for certain premiums, losses, and payments under the first year of the affected reinsurance treaty, and ordered the second year be rescinded. In February 2010, the Company and Reinsurer resolved the dispute by entering into an agreement to commute all reinsurance treaties between them. As a result of the agreement the Company increased an estimated liability by approximately $56 million at December 31, 2009. This increase has a material adverse effect on the Company's financial condition and prospects.

NOTES TO FINANCIAL STATEMENTS

22. REINSURANCE

A. Unsecured Reinsurance Recoverables

The Company has unsecured aggregate recoverables from unaffiliated reinsurers for losses and LAE paid and unpaid including IBNR and unearned premium that exceed 3% of the Company's policyholder surplus at December 31, 2009, with the following reinsurers (and related group members):

FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER	AGGREGATE RECOVERABLE
				(in thousands)
13-5124990	12	19380	American Home Assurance Co.	$ 154
25-0687550	12	19445	National Union Fire Insurance Co. of Pittsburgh	1,400
13-5616275	12	19453	Transatlantic Reinsurance Co.	6,996
			12 Group Total	8,550
06-0949141	31	33197	Cologne Reinsurance Co. of America	(3)
06-1325038	31	39136	Finial Reinsurance Co.	131,430
13-2673100	31	22039	General Reinsurance Corp.	30,034
47-6021331	31	20079	National Fire & Marine Insurance Co.	35,497
13-1988169	31	34835	National Reinsurance Corp.	327
			31 Group Total	197,284
13-1963496	38	20281	Federal Insurance Co.	1,757
			38 Group Total	1,757
05-0316605	65	21482	Factory Mutual Insurance Co.	586
			65 Group Total	586
38-0855585	79	22012	Motors Insurance Corp.	546
			79 Group Total	546
31-0973761	84	37990	American Empire Insurance Co.	151
31-0501234	84	16691	Great American Insurance Co.	954
95-3623282	84	41106	Triumpe Casualty Co.	(1,000)
			84 Group Total	105
06-0383750	91	19682	Hartford Fire Insurance Co.	1,540
			91 Group Total	1,540
47-0574325	98	32603	Berkley Insurance Co.	34,929
53-0067060	98	21784	Firemen's Insurance Co. of Washington D.C.	323
41-1232071	98	31003	Tri State Insurance Co. of Minnesota	395
			98 Group Total	35,647
35-0145400	111	19704	American States Insurance Co.	960
39-0264050	111	21458	Employers Insurance Co. of Wausau	5,470
04-1543470	111	23043	Liberty Mutual Insurance Co.	(146)
			111 Group Total	6,283
38-0865250	140	11991	National Casualty Co.	2,557
31-4177100	140	23787	Nationwide Mutual Insurance Co.	234
			140 Group Total	2,791

	NAIC GROUP #	NAIC_ CODE	REINSURER	AGGREGATE RECOVERABLE

NOTES TO FINANCIAL STATEMENTS

FEIN CODE				
				(in thousands)
25-0410420	150	24147	Old Republic Insurance Co.	$ 276
			150 Group Total	276
13-2781282	158	25070	Clearwater Insurance Co.	5,016
23-2745904	158	10019	Clearwater Select Insurance Co.	4,908
47-0698507	158	23680	Odyssey America Reinsurance Corp.	7,904
			158 Group Total	17,828
23-0580680	159	24457	Reliance Insurance Co.	3,965
			159 Group Total	3,965
39-0333950	169	24988	Sentry Insurance A Mutual Co.	732
			169 Group Total	732
13-3440360	181	29700	North American Elite Insurance Co.	25
06-0839705	181	82627	Swiss Reinsurance Life & Health America Inc.	1,436
13-1675535	181	25364	Swiss Reinsurance America Corp.	218,644
48-0921045	181	39845	Westport Insurance Corp.	33,284
			181 Group Total	253,389
75-0620550	215	19887	Trinity Universal Insurance Co.	3,489
			215 Group Total	3,489
36-2114545	218	20443	Continental Casualty Co.	12,490
			218 Group Total	12,490
13-6108721	225	26433	Harco National Insurance Co.	354
			225 Group Total	354
41-0451140	229	67105	Reliastar Life Insurance Co.	350
			229 Group Total	350
06-0384680	361	11452	Hartford Steam Boiler Inspection & Insurance	(223)
13-4924125	361	10227	Munich Reinsurance America, Inc.	51,578
			361 Group Total	51,355
74-0484030	408	60739	American National Insurance Co.	802
			408 Group Total	802
35-0145825	619	60895	American United Life Insurance Co.	321
			619 Group Total	321
06-0237820	626	20699	Ace Property & Casualty Insurance Co.	1,105
06-6105395	626	20710	Century Indemnity Co.	13,769
			626 Group Total	14,874
13-3029255	749	39322	General Security National Insurance Co.	5,889
75-1444207	749	30058	SCOR Reinsurance Co.	18,290
			749 Group Total	24,179
FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER	AGGREGATE RECOVERABLE
				(in thousands)
23-1642962	767	12262	Pennsylvania Mfrs. Assn. Insurance Co.	$ 268
23-2153760	767	39675	PMA Capital Insurance Co.	2,129

NOTES TO FINANCIAL STATEMENTS

			767 Group Total	2,396
23-1641984	796	10219	QBE Reinsurance Corp.	672
			796 Group Total	672
59-2048400	831	39152	American Healthcare Indemnity Co.	439
			831 Group Total	439
22-2005057	1120	26921	Everest Reinsurance Co.	2,284
			1120 Group Total	2,284
04-2475442	1129	20621	OneBeacon America Insurance Co.	129
23-1471444	1129	21962	Pennsylvania General Insurance Co.	254
13-2997499	1129	38776	White Mountains Reinsurance Co. of America	4,068
			1129 Group Total	4,452
13-5617450	1169	11231	Generali (U.S. Branch)	243
13-3126819	1169	97071	Generali USA Life Reassurance Co.	(1)
			1169 Group Total	242
06-1430254	1279	10348	Arch Reinsurance Co.	1,793
			1279 Group Total	1,793
13-1290712	1285	20583	XL Reinsurance America, Inc.	2,229
			1285 Group Total	2,229
06-1022232	1325	24899	Alea North America Insurance Co.	2,348
			1325 Group Total	2,348
13-3031176	3483	38636	Partner Reinsurance Co. of the U.S.	1,302
13-3531373	3483	10006	PartnerRe Insurance Co. of NY	5
			3483 Group Total	1,307
41-6009967	3548	24015	Northland Insurance Co.	45
41-0406690	3548	24767	St. Paul Fire & Marine Insurance Co.	2,449
06-0566050	3548	25658	Travelers Indemnity Co.	2,032
52-0515280	3548	25887	United States Fidelity & Guaranty Co.	558
			3548 Group Total	5,082
23-1740414	4234	22705	R&Q Reinsurance Co.	1,549
			4234 Group Total	1,549
43-1898350	4684	11054	Maiden Reinsurance Co.	7,652
			4684 Group Total	7,652
36-3155373		40398	American Fuji Fire & Marine Insurance Co.	496
AA-1340055			AXA Versicherung AG	1,833
AA-1120545			English & American Insurance Co. Ltd.	566
AA-9995022			Excess & Casualty Reinsurance Assn.	10,491

FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER	AGGREGATE RECOVERABLE (in thousands)
AA-9995013			Global Aerospace, Inc.	$ 82,883
AA-1340125			Hannover Rueckversicherungs AG	2,490
AA-1340106			HDI Hftpflchtvrbnd Der Deut Indst Versicher Auf Ge	2,474
AA-1127095			Lloyds's Syndicate #1095	273

NOTES TO FINANCIAL STATEMENTS

AA-1127900			Lloyds's Syndicate #1900	283
AA-3190829			Max Bermuda Ltd.	4,149
AA-9991159			Michigan Catastrophic Claims Assn.	902
AA-9995035			Mutual Reinsurance Bureau	1,433
AA-9991160			New Jersey Unsatisfied Claim & Judgment Fund	2,704
AA-1460146			Swiss Reinsurance Co. Ltd.	279
AA-9991444			Texas Workers Compensation	10,546
13-2918573		42439	TOA Reinsurance Co. of America	595
ZZ-0000070			Washington State USL&H Comp. Act Assigned Risk	1,491
41-1357750		10181	Workers Compensation Reinsurance Assn.	10,929
Total Aggregate Unsecured Reinsurance Recoverables in excess of 3% of the Company's surplus				$ 806,758

B. Reinsurance Recoverables in Dispute

The Company has reinsurance recoverable balances with the following reinsurers which are in dispute and in the aggregate exceed 10% of the Company's policyholders surplus:

Name of Reinsurer	Total Amount in Dispute (including IBNR)	Notification	Arbitration	Litigation
	(in thousands)			
Finial Reinsurance Co.	$ 113,730	$ 0	$ 113,730	0
Century Indemnity Co.	8,822	0	8,822	0
Continental Casualty Co.	4,134	0	4,134	0
Employers Insurance Co. of Wausau	3,995	0	3,995	0
Maiden Reinsurance Corp.	2,541	0	0	2,541
National Casualty Co.	1,913	0	1,913	0
Clearwater Insurance Co.	1,750	0	1,750	0
R&Q Reinsurance Co.	1,455	0	1,455	0
Excess and Casualty Reinsurance Assn.	1,233	0	1,233	0
Clearwater Select Insurance Co.	817	0	817	0
TOA Reinsurance Co. of America (The)	195	195	0	0
Odyssey America Reinsurance Corp.	159	0	159	0
Mutual Reinsurance Bureau	87	87	0	0
Nationwide Mutual Insurance Co.	32	0	32	0
Total	$ 140,863	$ 282	$ 138,040	$ 2,541

In 2007, the Company commenced an arbitration proceeding against a Reinsurer seeking to collect amounts due the Company pursuant to certain excess of loss reinsurance agreements encompassing primarily workers compensation losses and LAE. In late December 2009, an arbitration panel entered an Interim Order directing recalculation for certain premiums, losses, and payments under the first year of the affected reinsurance treaty, and ordered the second year be rescinded. In February 2010, the Company and Reinsurer resolved the dispute by entering into an agreement to commute all reinsurance treaties between them. As a result of the agreement the Company increased an estimated liability by approximately $56 million at December 31, 2009. This increase has a material adverse effect on the Company's financial condition and prospects.

C. Reinsurance Assumed and Ceded

(1) The estimated maximum amount of return commission due reinsurers if all of the Company's reinsurance was canceled as of December 31, 2009, is shown below:

	ASSUMED REINSURANCE		CEDED REINSURANCE		NET	
(in thousands)	**Premium Reserve**	**Commission Equity**	**Premium Reserve**	**Commission Equity**	**Premium Reserve**	**Commission Equity**
(i) Affiliates	$ 3,387	$ 118	$ 19	$ 0	$ 3,368	$ 118
(ii) All other	208	18	1,360	5,067	(1,152)	(5,049)
(iii) Total	$ 3,595	$ 136	$ 1,378	$ 5,067	$ 2,216	$ (4,931)
(iv) Direct Unearned Premium Reserves: $353						

NOTES TO FINANCIAL STATEMENTS

(2) Certain reinsurance agreements provide for additional or return commissions based on the actual loss experience of the reinsured business. At December 31, 2009, based on then current estimates, the Company's accrual for ceded contingent commissions was a net asset of approximately $22.3 million. This accrued amount is included in line 23 under "Assets" on the Company's December 31, 2009 balance sheet. Such amounts have been estimated based on actuarial techniques and as such are subject to periodic re-evaluation.

(in thousands)	DIRECT	ASSUMED	CEDED	NET
(i) Contingent Commission	$ 0	$ 0	$ 23,187	$ (23,187)
(ii) Sliding Scale Adjustments	0	0	(874)	874
(iii) Other Profit Commission Arrangements	0	0	0	0
(iv) Total	$ 0	$ 0	$ 22,313	$ (22,313)

D. Uncollectible Reinsurance

The Company has written off in the current year reinsurance balances due from the companies listed below of $858 thousand.

Reinsurer	Amount	Reflected As
	(in thousands)	
Scor Reinsurance Co.	$ 858	Other
Total	$ 858	

E. Commutation of Ceded Reinsurance

The Company has reported the following amounts in its 2009 operations year as a result of commutations of ceded reinsurance with the companies listed below:

Reinsurer	FEIN Code	Amount	Reflected As
		(in thousands)	
Ace American Insurance Co.	95-2371728	$ (36)	Losses Incurred
Ace American Insurance Co.	95-2371728	(1)	Other
Australian World Underwriters	ZZ-0000054	(30)	Losses Incurred
Australian World Underwriters	ZZ-0000054	(1)	Other
Commercial Risk Reinsurance Co.	Various	(7,546)	Losses Incurred
Commercial Risk Reinsurance Co.	Various	(104)	Other
English & American Insurance Co., Ltd.	AA-1120545	24	Losses Incurred
English & American Insurance Co., Ltd.	AA-1120545	554	Other
General Security National Insurance Co.	13-3029255	(1)	Losses Incurred
Optical Insurance Co.	03-0370747	(511)	Losses Incurred
Radian Asset Assurance Inc.	22-2712977	(8)	Losses Incurred
Lloyd's Syndicate Numbers 0510, 0557, 0807, and 1105	Various	(6)	Losses Incurred
Saranac Insurance Co. Ltd.	AA-3160039	(50)	Other
State Farm Fire & Casualty Co.	37-0533080	(4,155)	Losses Incurred
State Farm Fire & Casualty Co.	37-0533080	(140)	Other
Swiss Reinsurance America Corp.	13-1675535	441	Losses Incurred
Swiss Reinsurance America Corp.	13-1675535	(607)	Other
Transatlantic Reinsurance Co.	13-5616275	299	Losses Incurred
Transatlantic Reinsurance Co.	13-5616275	(300)	Other
Total		$ (12,178)	

F. Retroactive Reinsurance

None. (See Note 1.A.)

NOTES TO FINANCIAL STATEMENTS

G. Reinsurance Accounted for as a Deposit

The Company entered into various reinsurance agreements prior to 2003 which were subsequently determined to be of a deposit type nature. As of December 31, 2009, the Company had no remaining deposit balance after taking into account interest income on deposits and cash recoveries, as follows:

(in thousands)	Contract #1	Contract #2	Total
Effective Date	11/1/1999	7/1/2001	
Effective Yield	18.91%	-11.52%	
2002:			
Initial payment	0	2,823	2,823
Cash deposits	0	112	112
Interest income	290	(1,698)	(1,408)
Cash recoveries	(967)	(553)	(1,520)
Deposit balance	1,996	1,969	3,965
2003:			
Initial payment	0	0	0
Cash deposits	0	(95)	(95)
Interest income	114	0	114
Cash recoveries	(538)	(802)	(1,340)
Deposit balance	1,572	1,072	2,644
2004:			
Initial payment	0	0	0
Cash deposits	0	(2)	(2)
Interest income	0	0	0
Cash recoveries	0	(586)	(586)
Deposit balance	1,572	484	2,056
2005:			
Initial payment	0	0	0
Cash deposits	0	0	0
Interest income	415	1,124	1,539
Cash recoveries	(1,532)	(378)	(1,910)
Deposit balance	455	1,230	1,685
2006:			
Initial payment	0	0	0 0
Cash deposits	0	0	0
Interest income	267	0	267
Cash recoveries	(148)	0	(148)
Deposit balance	574	1,230	1,804
2007:			
Initial payment	0	0	0
Cash deposits	0	0	0
Interest income	161	145	306
Cash recoveries	(700)	(599)	(1,299)
Deposit balance	35	776	811
2008:			
Initial payment	0	0	0
Cash deposits	0	0	0
Interest income	2	0	2
Cash recoveries	(7)	(207)	(214)
Deposit balance	30	569	599
2009:			
Initial payment	0	0	0
Cash deposits	0	0	0
Interest income	27	(324)	(297)
Cash recoveries	(57)	(245)	(302)
Deposit balance	$ 0	$ 0	$ 0

NOTES TO FINANCIAL STATEMENTS

23. RETROSPECTIVELY RATED CONTRACTS & CONTRACTS SUBJECT TO REDETERMINATION

A. Accrued retrospective premiums reported on Page 2, Assets, Line 13.3, Column 3 have been determined based upon loss experience on business subject to retrospective rating and dividend recall plans.

B. Accrued retrospective premiums are recorded through an adjustment to earned premium.

C. For detail of net premium written subject to retrospective rating features, see Schedule P – Part 7A.

D. Ten percent of the amount not offset by retrospective return premium or collateral has been designated nonadmitted and charged to surplus.

	December 31, 2009
	(in thousands)
Accrued retrospective premium	$ 9,969
Less: Nonadmitted amount	227
Admitted amount	$ 9,742

24. CHANGES IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	2009	2008
	(in thousands)	
Balance as of January 1, net of reinsurance recoverables of $879,068 in 2009 and $1,135,204 in 2008	$ 1,040,399	$ 1,237,397
Incurred related to:		
Current accident year	2,988	4,309
Prior accident years	87,241	97,655
Total incurred	90,229	101,964
Paid related to:		
Current accident year	(649)	(1,358)
Prior accident years	(239,498)	(297,604)
Total paid	(240,147)	(298,962)
Balance as of December 31, net of reinsurance recoverables of $890,864 in 2009 and $879,068 in 2008	$ 890,481	$ 1,040,399

The incurred loss and LAE reserves related to prior accident years increased by 87.2 million in 2009 and increased by $97.6 million in 2008.

The prior year development in 2009 is due to:

1. Nominal adverse loss and LAE reserve development of $52.6 million comprised of (a) an $82.6 million increase arising primarily from deterioration in workers' compensation, other liability, commercial auto liability, and special property that was partially offset by favorable development in products liability, CMP, and special liability; and (b) a $30.0 million decrease arising from buybacks, commutations, and novations; and
2. A reduction of discount of $34.6 million comprised of (a) a $37.9 million decrease for anticipated amortization of discount; (b) a $13.1 million increase due to nominal reserve strengthening; and (c) a $9.8 million reduction associated with buybacks, commutations, and novations.

The prior year development million in 2008 is due to:

1. Nominal adverse loss and LAE reserve development of $33.0 million comprised of (a) a $123.9 million increase arising primarily from deterioration in workers' compensation, other liability (including a reclassification of excess workers' compensation), products liability, CMP, and personal lines that was offset partially by favorable development in commercial auto liability and surety; and (b) a $90.9 million decrease arising from buybacks, commutations, and novations; and

2. A reduction of discount of $64.6 million comprised of (a) a $48.0 million decrease for anticipated amortization of discount; (b) a $16.0 million increase due to nominal reserve

NOTES TO FINANCIAL STATEMENTS

strengthening; and (c) a $32.6 million reduction associated with buybacks, commutations, and novations.

25. INTERCOMPANY POOLING ARRANGEMENTS

The Company is the lead Kemper company. The significant majority of the business written by members of the Kemper Insurance Companies has historically been ceded to the Company through quota share reinsurance agreements with some Company subsidiaries retaining a portion of the business written and through a quota share pooling agreement by and among the Company, AMICO, and AMM. Prior to 2003, of the insurance business directly written by the Company or ceded to the Company, including all business written by AMICO and AMM, the Company ceded (net of third-party, unaffiliated, reinsurance and excluding Canadian business) 15% to AMICO and 8% to AMM. (Third-party reinsurance has generally attached after cessions by affiliates to the Company, although some specific risks have been subject to facultative or other reinsurance before cession to the Company.) Effective January 1, 2003, the pooling agreement was amended to eliminate the 15% cession to AMICO, and effective December 31, 2003, the pooling agreement was amended to eliminate the 8% cession to AMM. The effect of both amendments was for the Company to retain all previously ceded risks, and the amendments were accompanied by transfers of assets by each of AMICO and AMM in order to satisfy the liabilities transferred to the Company by the pooling agreement amendments. As a result, at December 31, 2009 and 2008, the net reserves at each of AMICO and AMM are zero.

At the same time as the December 31, 2003 pooling agreement amendment, the Company assumed most of AMM's liabilities, agreed to perform for AMM all insurance policy-related obligations including handling and paying claims, and issued a Company policy to each holder of a policy ever issued by AMM, including any policy no longer in force but excluding any policy that is cut-through reinsured by Unitrin (see "*Kemper Auto & Home: Renewal Rights and Cut-Through*" in Note 10). The additional Company policy is substantively identical to the policy previously issued by AMM, although the Company policy is non-participating and non-voting with respect to the Company's corporate governance. The additional Company policy assures affected AMM policyholders that their claims will be treated equally with the claims of other Company policyholders not only in the event of a managed run-off of the Company and AMM (see Note 14) but also in the event of any insolvency proceedings with respect to the two companies. AMM remains liable for its policy liabilities in the event the Company does not comply with all the terms of the affected policies. In 2008 with the approval of the Department, the Company and AMM 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 $1.9 million in 2009, with the Company's and AMM's respective shares being $1.7 million and $0.2 million. The 2008 agreement also made clear that consistent with their past practices, premium taxes remained the sole responsibility of the Company as AMM's 100% quota share reinsurer.

26. STRUCTURED SETTLEMENTS

A. In limited circumstances to settle certain insurance claim liabilities, the Company from time to time since the late 1970's purchased from various life insurance companies structured settlement annuities naming the settling claimants as payees. In many of those settlements, the Company has remained the owner of the respective annuity and contingently liable to the claimant, that is, liable for the periodic payments in the event of the default or insolvency of the life insurance company. In a limited number of these settlements, the Company's purchase of annuities has resulted in a full release from the settling claimants without contingent liability. Where the Company's purchase of annuities has not fully released the Company from contingent liability, the Company has calculated the present value (at a 4.2% discount rate) of future unpaid annuity installments. At December 31, 2009, the Company's contingent liabilities for future unpaid annuity installments totaled $339.2 million. Reflecting intercompany reinsurance arrangements, $189.8 million of the Company's $339.2 million of contingent liability arises on settlements of claims on policies initially issued by AMM, AMICO, and KICT.

NOTES TO FINANCIAL STATEMENTS

B. 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.

Life Insurance Company [1]	Location	Amount
		(in thousands)
Genworth Life and Annuity Insurance Company	Richmond, VA	$ 72,540
Executive Life Insurance Company of New York [2]	New York, NY	37,247
Symetra Life Insurance Company	Seattle, WA	30,218
Manufacturers Life Insurance Company	Toronto, Canada	22,186
Western National Life Insurance Company	Houston, TX	21,759
Life Insurance Company of North America	Bloomfield, CT	21,517
Fidelity Life Association	Oak Brook, IL	13,503
Monumental Life Insurance Company	Cedar Rapids, IA	13,130
Metropolitan Life Insurance Company	New York, NY	11,935
Aviva Life and Annuity Company	Des Moines, IA	9,118
Presidential Life Insurance Company	Nyack, NY	7,977
Pacific Life Insurance Company	Newport Beach, CA	7,521
Midland National Life Insurance Company	Sioux Falls, SD	7,497
Prudential Insurance Company of America	Newark, NJ	7,302
Protective Life Insurance Company	Birmingham, AL	5,188
Lincoln National Life Insurance Company	Ft. Wayne, IN	4,919
Transamerica Life Insurance Company	Cedar Rapids, IA	4,722
Aurora National Life Assurance Company	East Hartford, CT	3,677
Sun Life Assurance Company of Canada	Toronto, Canada	3,272
Allstate Life Insurance Company of New York	Hauppauge, NY	3,145
American General Life Insurance Company	Houston, TX	2,435
New York Life Insurance Company	New York, NY	2,261
Metropolitan Life Insurance Company of Connecticut	Hartford, CT	2,252
Allstate Life Insurance Company	Northbrook, IL	1,863
AIG Life Insurance Company	Houston, TX	1,679
Canada Life Assurance Company	Toronto, Canada	1,618
Monarch Life Insurance Company [3]	Holyoke, MA	1,612
Transamerica Financial Life Insurance Company	Cedar Rapids, IA	1,606
SunAmerica Life Insurance Company	Los Angeles, CA	1,437
American International Life Assurance Company of NY	New York, NY	1,404
United of Omaha Life Insurance Company	Omaha, NE	1,225
Security Benefit Life Insurance Company	Topeka, KS	1,133
Great-West Life Assurance Company	Winnipeg, Canada	1,120
The Ohio National Life Insurance Company	Cincinnati, OH	1,087
Standard Life Assurance Company	Montreal, Canada	906
AXA Equitable Life Insurance Company	New York, NY	874
Desjardins Financial Security Life Assurance Company	Levis, Canada	631
Stonebridge Life Insurance Company	Cedar Rapids, IA	613
Farmers New World Life Insurance Company	Mercer Island, WA	598
Genworth Life Insurance Company of New York	New York, NY	566
ING Life Insurance and Annuity Company	Atlanta, GA	546
Liberty Life Assurance Company of Boston	Dover, NH	522
Capitol Life Insurance Company [4]	Dallas, TX	521
Genworth Life Insurance Company	Richmond, VA	436
Life Insurance Company [1]	**Location**	**Amount**
		(in thousands)
Washington National Insurance Company	Carmel, IN	$ 359
EMC National Life Company	Des Moines, IA	318
USAA Life Insurance Company	San Antonio, TX	308
Continental Assurance Company	Chicago, IL	236
North American Company for Life & Health Insurance	Sioux Falls, SD	124
Integrity Life Insurance Company	Cincinnati, OH	96
OM Financial Life Insurance Company	Baltimore, MD	91

NOTES TO FINANCIAL STATEMENTS

Prudential Insurance Company		Newark, NJ		89
Sun America Life Insurance Company		Los Angeles, CA		85
All other				219
Total				$ 339,243

(1) All of the life insurance companies listed in the preceding table are rated A- or better by A.M. Best, other than: Presidential Life Insurance Company (B+), Security Benefit Life Insurance Company (B), Washington National Insurance Company (B) and EMC National Life Company (B++); Executive Life Insurance Company of New York ("ELNY"), Aurora National Life Assurance Company, Desjardins Financial Security Life Assurance Company and Capitol Life Insurance Company are not rated. Monarch Life Insurance Company ("Monarch") is rated E, under supervision. In addition, all of the companies are licensed in the state of the Company's domicile, Illinois, other than ELNY, The Great-West Life Assurance Company, Manufacturers Life Insurance Company, Standard Life Assurance Company, and Desjardins Financial Security Life Assurance Company.

(2) ELNY was placed 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 mature 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.

(3) Monarch was placed in rehabilitation by the Insurance Commissioner of the Commonwealth of Massachusetts in June 1994. The Company is unsure as to the extent of Monarch's ability to pay its obligations as they mature.

(4) The Capitol Life Insurance Company was placed in rehabilitation by the Insurance Commissioner of Texas in September, 2003. The Company is unsure as to the extent of the company's ability to pay its obligations as they mature.

27. HEALTH CARE RECEIVABLES

None.

28. PARTICIPATING POLICIES

None.

29. PREMIUM DEFICIENCY RESERVES

As of December 31, 2009, the Company had liabilities of $0.7 million related to premium deficiency reserves compared to $2.0 million at December 31, 2008. The Company used an offset of $0.5 million for anticipated investment income based on an interest rate of 4.2% when calculating its premium deficiency reserves.

30. HIGH DEDUCTIBLES

As of December 31, 2009, the amount of reserve credits recorded for high deductibles on unpaid workers' compensation claims was $248.2 million, and for non-workers' compensation claims it was $11.4 million. The workers' compensation amount reflects both Broadspire handled claims and also claims handled by other third-party administrators. The non-workers' compensation amount reflects only claims handled by Broadspire. Information is not available for the non-workers' compensation claims not handled by Broadspire. The amount billed and recoverable on paid claims was $8.5 million at December 31, 2009.

31. DISCOUNTING OF LIABILITIES FOR UNPAID LOSSES OR UNPAID LOSS ADJUSTMENT EXPENSES

The Department requires the Company to discount all its loss and LAE reserves, using a 4.2% interest rate assumption. The Company utilizes a cash-flow methodology approach in determining the amount of this discount which is based on the underlying payout patterns for each line of business and each accident year. The total discount as of December 31, 2009 is $340.8 million, of which $120.4 million is for tabular discount on other A&H and workers' compensation indemnity claims where the claimant has been classified as permanent total or where the Company identifies a lifetime benefit potential.

With regard to tabular cases, the indemnity loss portion of unpaid workers' compensation pension cases are discounted on a tabular basis using the 1999 United States Decennial Life Tables for Female and Male Population at 3.5%, except for cases from New Jersey and New York. New Jersey cases use the 1999 United States Decennial Life Tables for Female and Male Population at 5.0%. New York cases use New York Special Bulletin 222 from the New York State Workers' Compensation Board at 3.0% or 6.0% depending on the accident date. Any supplemental discount associated with the Company's higher interest rate assumption is treated as non-tabular discount.

NOTES TO FINANCIAL STATEMENTS

Liabilities for Group A&H Long-Term Disability claims are calculated on a tabular basis using the 1987 Commissioners Group Disability Table with a 4.2% discount rate. The table is the NAIC minimum valuation standard. The discount rate is lower (more conservative) than the minimum valuation standard permits, but uses the maximum 4.2% discount rate that is prescribed for the Company.

Tabular Discount	
Included in Schedule P, Part 1	
Line of Business	Case and IBNR*
	(in thousands)
Workers' Compensation	$ 113,180
Other (Including Credit, A&H)	7,203
Total Tabular Discount	120,383
Non-Tabular Discount	
Line of Business	
Homeowners/Farmowners	32
Private Passenger Auto Liability/Medical	783
Commercial Auto/Truck Liability/Medical	8,189
Workers' Compensation	139,752
Commercial Multi Peril	10,684
Medical Malpractice - occurrence	10
Special Liability	723
Other Liability - occurrence	33,792
Other Liability - claims-made	4,812
Special Property	(20)
Auto Physical Damage	26
Fidelity/Surety	1,092
Other (including Credit, A&H)	54
Reinsurance Nonproportional Assumed Liability	12,939
Products Liability - occurrence	7,565
Total Non-Tabular Discount	220,433
Grand Total	$ 340,816

*Includes loss and LAE.

NOTES TO FINANCIAL STATEMENTS

32. ASBESTOS/ENVIRONMENTAL RESERVES

The Company has exposure to asbestos and environmental claims that arise principally from general liability insurance contracts.

The Company estimates the impact of these exposures by establishing case basis reserves on all known losses and LAE and by computing IBNR losses based on previous experience.

The asbestos related losses (including coverage dispute costs) for each of the five most recent calendar years are as follows:

Direct	2005	2006	2007	2008	2009
Beginning reserves	$316,063,425	$258,687,920	$ 50,745,520	$ 48,287,963	$ 37,272,724
Incurred losses and LAE	(3,482,017)	(93,543,975)	8,171,540	1,483,834	1,929,966
Calendar year payments for					
Losses and LAE	(53,893,488)	(114,398,425)	(10,629,097)	(12,499,073)	(6,992,205)
Ending asbestos related Loss reserves	$258,687,920	$ 50,745,520	$ 48,287,963	$ 37,272,724	$ 32,210,485

Assumed Reinsurance	2005	2006	2007	2008	2009
Beginning reserves	$281,545,618	$243,722,459	$234,969,103	$ 182,815,368	$137,087,779
Incurred losses and LAE	11,650,751	108,658,211	(2,675,434)	(3,224,875)	12,799,378
Calendar year payments for					
Losses and LAE	(49,473,910)	(117,411,567)	(49,478,301)	(42,502,714)	(28,706,139)
Ending asbestos related Loss reserves	$243,722,459	$234,969,103	$182,815,368	$ 137,087,779	$121,181,018

Net of Reinsurance	2005	2006	2007	2008	2009
Beginning reserves	$285,376,907	$227,875,416	$196,341,222	$ 163,721,514	$121,465,801
Incurred losses and LAE	10,523,263	28,650,043	5,224,196	(10,166,032)	9,145,074
Calendar year payments for					
Losses and LAE	(68,024,754)	(60,184,237)	(37,843,904)	(32,089,681)	(23,736,101)
Ending asbestos related Loss reserves	$227,875,416	$196,341,222	$163,721,514	$ 121,465,801	$106,874,774

The total asbestos related loss reserves at December 31, 2009 include IBNR reserves in the amount of $6,893,180 direct, $45,247,559 assumed, and $32,024,892 net of reinsurance. These IBNR reserves and the comparable amounts for prior years cover both losses and defense and cost containment expenses.

The total asbestos related loss reserves at December 31, 2009 also include LAE in the amount of $17,983,000 direct, $37,730,738 assumed, and $52,072,436 net of reinsurance.

NOTES TO FINANCIAL STATEMENTS

The environmental related losses (including coverage dispute costs) for each of the five most recent calendar years were:

Direct	2005	2006	2007	2008	2009
Beginning reserves	$ 14,957,958	$ 17,022,837	$ 10,696,560	$ 5,917,205	$ 7,414,481
Incurred losses and LAE	9,759,045	5,299,250	(1,724,558)	3,901,109	7,606,903
Calendar year payments for					
Losses and LAE	(7,694,166)	(11,625,527)	(3,054,797)	(2,403,833)	(3,795,505)
Ending environmental related					
Loss Reserves	$ 17,022,837	$ 10,696,560	$ 5,917,205	$ 7,414,481	$ 11,225,879
Assumed Reinsurance	**2005**	**2006**	**2007**	**2008**	**2009**
Beginning reserves	$ 88,934,152	$ 77,424,436	$ 66,025,514	$ 37,919,893	$ 23,966,682
Incurred losses and LAE	681,981	81,301	(7,552,263)	(12,087,524)	(2,823,542)
Calendar year payments for					
Losses and LAE	(12,191,697)	(11,480,223)	(20,553,358)	(1,865,687)	(4,778,929)
Ending environmental related					
Loss Reserves	$ 77,424,436	$ 66,025,514	$ 37,919,893	$ 23,966,682	$ 16,364,211
Net of Reinsurance	**2005**	**2006**	**2007**	**2008**	**2009**
Beginning reserves	$ 88,310,338	$ 74,371,455	$ 63,373,890	$ 38,567,291	$ 26,969,125
Incurred losses and LAE	(3,202,697)	10,720,933	(9,596,825)	(10,072,456)	5,118,458
Calendar year payments for					
Losses and LAE	(10,736,186)	(21,718,498)	(15,209,774)	(1,525,710)	(8,149,397)
Ending environmental related					
Loss Reserves	$ 74,371,455	$ 63,373,890	$ 38,567,291	$ 26,969,125	$ 23,938,186

The total environmental related loss reserves at December 31, 2009 include IBNR reserves in the amount of $2,192,643 direct, $5,198,067 assumed, and $4,328,924 net of reinsurance. These IBNR reserves and the comparable amounts for prior years cover both losses and defense and cost containment expenses.

The total environmental related loss reserves at December 31, 2009 also include LAE in the amount of $3,317,931 direct, $7,389,102 assumed, and $10,030,970 net of reinsurance.

33. **SUBSCRIBER SAVINGS ACCOUNT**
None.

34. **MULTIPLE PERIL CROP INSURANCE**
None.

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [X] No [ ]

1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [X] No [ ] NA [ ]

1.3 State Regulating? Illinois

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [X]

2.2 If yes, date of change:

3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2005

3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2005

3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 07/11/2007

3.4 By what department or departments? Illinois

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

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

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

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

4.12 renewals? Yes [ ] No [X]

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

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

4.22 renewals? Yes [ ] No [X]

5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [X]

5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

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

6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [ ] No [X]

6.2 If yes, give full information

7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [X]

7.2 If yes,

7.21 State the percentage of foreign control

7.22 State the nationality(s) of the foreign person(s) or entity(s) or if the entity is a mutual or reciprocal, the nationality of its manager or attorney - in - fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney - in - fact).

1 Nationality	2 Type of Entity

GENERAL INTERROGATORIES

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [ ] No [X]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ ] No [X]

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

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
KPMG, LLP, Peat Marwick Plaza, 303 East Wacker Drive, Chicago, Illinois, 60601-9973

10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
Chris E. Nelson, FCAS, MAAA, Chief Actuary of the reporting entity, and associated with Nelson Actuarial, 1997 Dellwood Drive, NW, Atlanta, GA 30309

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

11.11 Name of real estate holding company: LGA-17, Inc. & Delta Wetlands Joint Venture

11.12 Number of parcels involved: 2

11.13 Total book/adjusted carrying value: $ 7,238,909

11.2 If yes, provide explanation

12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

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

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

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

12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] NA [ ]

13.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes [X] No [ ]

a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
c. Compliance with applicable governmental laws, rules and regulations;
d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
e. Accountability for adherence to the code.

13.11 If the response to 13.1 is No, please explain:

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

13.21 If the response to 13.2 is Yes, provide information related to amendment(s).

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

13.31 If the response to 13.3 is Yes, provide the nature of any waiver(s).

BOARD OF DIRECTORS

14. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No [ ]

15. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No [ ]

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

GENERAL INTERROGATORIES

FINANCIAL

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

18.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 18.11 To directors or other officers $ 0
- 18.12 To stockholders not officers $ 0
- 18.13 Trustees, supreme or grand (Fraternal only) $ 0

18.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 18.21 To directors or other officers $ 0
- 18.22 To stockholders not officers $ 0
- 18.23 Trustees, supreme or grand (Fraternal only) $ 0

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

19.2 If yes, state the amount thereof at December 31 of the current year:
- 19.21 Rented from others $
- 19.22 Borrowed from others $
- 19.23 Leased from others $
- 19.24 Other $

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

20.2 If answer is yes:
- 20.21 Amount paid as losses or risk adjustment $
- 20.22 Amount paid as expenses $
- 20.23 Other amounts paid $

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

21.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $ 0

INVESTMENT

22.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 22.3) Yes [X] No [ ]

22.2 If no, give full and complete information relating thereto:

22.3 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 16 where this information is also provide)

Not applicable

22.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes [ ] No [ ] NA [ ]

22.5 If answer to 22.4 is YES, report amount of collateral $

22.6 If answer to 22.4 is NO, report amount of collateral $

23.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 19.1 and 22.3) Yes [X] No [ ]

23.2 If yes, state the amount thereof at December 31 of the current year:
- 23.21 Subject to repurchase agreements $
- 23.22 Subject to reverse repurchase agreements $
- 23.23 Subject to dollar repurchase agreements $
- 23.24 Subject to reverse dollar repurchase agreements $
- 23.25 Pledged as collateral $ 183,773,340
- 23.26 Placed under option agreements $
- 23.27 Letter stock or securities restricted as to sale $
- 23.28 On deposit with state or other regulatory body $ 297,513,587
- 23.29 Other $

23.3 For category (23.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

24.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ] NA [X]
If no, attach a description with this statement.

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

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

GENERAL INTERROGATORIES

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

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

1 Name of Custodian(s)	2 Custodian's Address
BNY Mellon Trust Company of Illinois	2 North LaSalle St., Suite 1020, Chicago, IL 60602

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

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

26.03 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year? Yes [ ] No [X]

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

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

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

1 Central Registration Depository Number(s)	2 Name	3 Address
109875	Asset Allocation & Management Company, L.L.C.	30 North LaSalle St., 35th Floor, Chicago, IL 60602

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

27.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
27.2999 TOTAL		0

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

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding Of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation

GENERAL INTERROGATORIES

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

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-) or Fair Value over Statement (+)
28.1 Bonds	864,135,687	854,066,069	(10,069,618)
28.2 Preferred stocks	0		0
28.3 Totals	864,135,687	854,066,069	(10,069,618)

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

See Footnote 5.

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

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

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

The Company's engaged portfolio manager determines reliable pricing sources for the Company's investments, including the two bonds priced by brokers.

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

30.2 If no, list exceptions:

OTHER

31.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? $ 2,250

31.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Mississippi State Rating Bureau	1,000
New Mexico Insurance Division	1,000

32.1 Amount of payments for legal expenses, if any? $ 4,926,995

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

1 Name	2 Amount Paid
Tribler Orpett & Meyer PC	1,482,050

33.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? $ 0

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

1 Name	2 Amount Paid

GENERAL INTERROGATORIES
(continued)
PART 2 - PROPERTY & CASUALTY INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [ ] No [X]
1.2 If yes, indicate premium earned on U.S. business only. $
1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? $
1.31 Reason for excluding

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. $
1.5 Indicate total incurred claims on all Medicare Supplement insurance. $ 0
1.6 Individual policies:

Most current three years:
1.61 Total premium earned $ 0
1.62 Total incurred claims $ 0
1.63 Number of covered lives 0
All years prior to most current three years:
1.64 Total premium earned $ 0
1.65 Total incurred claims $ 0
1.66 Number of covered lives 0

1.7 Group policies:

Most current three years:
1.71 Total premium earned $ 0
1.72 Total incurred claims $ 0
1.73 Number of covered lives 0
All years prior to most current three years:
1.74 Total premium earned $ 0
1.75 Total incurred claims $ 0
1.76 Number of covered lives 0

2. Health Test:

		1 Current Year	2 Prior Year
2.1	Premium Numerator	$ 0	$ 0
2.2	Premium Denominator	$ 5,176,802	$ 7,846,810
2.3	Premium Ratio (2.1/2.2)	0.000	0.000
2.4	Reserve Numerator	$ 33,818,932	$ 50,910,604
2.5	Reserve Denominator	$ 915,919,417	$ 1,060,104,369
2.6	Reserve Ratio (2.4/2.5)	0.037	0.048

3.1 Does the reporting entity issue both participating and non-participating policies? Yes [ ] No [X]
3.2 If yes, state the amount of calendar year premiums written on:
3.21 Participating policies $
3.22 Non-participating policies $

4. For Mutual reporting entities and Reciprocal Exchanges only:
4.1 Does the reporting entity issue assessable policies? Yes [ ] No [X]
4.2 Does the reporting entity issue non-assessable policies? Yes [X] No [ ]
4.3 If assessable policies are issued, what is the extent of the contingent liability of the policyholders? %
4.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums. $

5. For Reciprocal Exchanges Only:
5.1 Does the exchange appoint local agents? Yes [ ] No [ ]
5.2 If yes, is the commission paid:
5.21 Out of Attorney's-in-fact compensation Yes [ ] No [ ] NA [X]
5.22 As a direct expense of the exchange Yes [ ] No [ ] NA [X]
5.3 What expenses of the Exchange are not paid out of the compensation of the Attorney-in-fact?

5.4 Has any Attorney-in-fact compensation, contingent on fulfillment of certain conditions, been deferred? Yes [ ] No [ ]
5.5 If yes, give full information

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

6.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit of loss:

Due to the Company being in run-off, Workers' Compensation Catastrophe Excess of Loss reinsurance was not purchased after October 1, 2004.

6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process:

The Company's property exposures continued to rapidly decline throughout 2009 as a result of the run-off of the Company's exposures beginning in 2003. It was no longer necessary as of 2004 to estimate the nature and extent of the Company's probable maximum insurance loss or exposure concentrations.

6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss?

The Company elected to discontinue the purchase of property catastrophe excess of loss reinsurance upon expiration of the program at May 1, 2003.

6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? Yes [ ] No [X]

6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to unreinsured catastrophic loss.

Due to the Company being well into run-off in 2009 there was no longer the necessity for per risk excess of loss reinsurance on either a facultative or risks attaching basis to protect against the risk of loss arising from single large loss occurrences.

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract 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)? Yes [X] No [ ]

7.2 If yes, indicate the number of reinsurance contracts containing such provisions. 2

7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes [X] No [ ]

8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? Yes [ ] No [X]

8.2 If yes, give full information

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 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 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) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, 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 [X] No [ ]

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), for which, during the period covered by the statement, 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; excluding cessions to approved pooling agreements 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 in a separate reinsurance contract. Yes [ ] No [X]

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:

(a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;

(b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and

(c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

9.4 Except for transactions meeting the requirements of paragraph 32 of SSAP No. 62, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts 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 statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? Yes [ ] No [X]

9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.

9.6 The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:

(a) The entity does not utilize reinsurance; or, Yes [ ] No [X]

(b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or Yes [ ] No [X]

(c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement. Yes [ ] No [X]

10. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? Yes [X] No [ ] N/A [ ]

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

11.1 Has the reporting entity guaranteed policies issued by any other entity and now in force: Yes [X] No [ ]

11.2 If yes, give full information
The Company has guaranteed the obligations under policies issued on and after January 1, 2002 by its former Belgium subsidiary, Kemper S.A. (Societe Anonyme) and the obligations of its Australian subsidiary, Kemper Insurance Company Limited.

12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 13.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- 12.11 Unpaid losses $ 8,585,360
- 12.12 Unpaid underwriting expenses (including loss adjustment expenses) $ 1,383,197

12.2 Of the amount on Line 13.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? $ 7,698,222

12.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium notes or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? Yes [ ] No [X] NA [ ]

12.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
- 12.41 From 0.0 %
- 12.42 To 0.0 %

12.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium notes or promissory notes taken by the reporting entity, or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? Yes [X] No [ ]

12.6 If yes, state the amount thereof at December 31 of the current year:
- 12.61 Letters of Credit $ 304,590,802
- 12.62 Collateral and other funds $ 99,340,633

13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): $ 34,170,000

13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? Yes [ ] No [X]

13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. 0

14.1 Is the company a cedant in a multiple cedant reinsurance contract? Yes [X] No [ ]

14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants:
Premium and coverage is allocated proportionately among cedants on the basis of contract period subject earned premium.

14.3 If the answer to 14.1 is yes, are the methods described in item 14.2 entirely contained in the respective multiple cedant reinsurance contracts? Yes [ ] No [X]

14.4 If the answer to 14.3 is no, are all the methods described in 14.2 entirely contained in written agreements? Yes [X] No [ ]

14.5 If answer to 14.4 is no, please explain:

15.1 Has the reporting entity guaranteed any financed premium accounts? Yes [ ] No [X]

15.2 If yes, give full information

16.1 Does the reporting entity write any warranty business? Yes [X] No [ ]

If yes, disclose the following information for each of the following types of warranty coverage:

		1 Direct Losses Incurred	2 Direct Losses Unpaid	3 Direct Written Premium	4 Direct Premium Unearned	5 Direct Premium Earned
16.11	Home	$ (22,443)	$	$	$	$
16.12	Products	$ (73,057)	$	$	$	$
16.13	Automobile	$	$	$	$	$
16.14	Other*	$	$	$	$	$

* Disclose type of coverage:

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

17.1 Does the reporting entity include amounts recoverable on unauthorized reinsurance in Schedule F – Part 3 that it excludes from Schedule F – Part 5. Yes [ ] No [X]

Incurred but not reported losses on contracts not in force prior to July 1, 1984, and not subsequently renewed are exempt from inclusion in Schedule F – Part 5. Provide the following information for this exemption:

17.11	Gross amount of unauthorized reinsurance in Schedule F – Part 3 excluded from Schedule F – Part 5	$
17.12	Unfunded portion of Interrogatory 17.11	$
17.13	Paid losses and loss adjustment expenses portion of Interrogatory 17.11	$
17.14	Case reserves portion of Interrogatory 17.11	$
17.15	Incurred but not reported portion of Interrogatory 17.11	$
17.16	Unearned premium portion of Interrogatory 17.11	$
17.17	Contingent commission portion of Interrogatory 17.11	$

Provide the following information for all other amounts included in Schedule F – Part 3 and excluded from Schedule F – Part 5, not included above.

17.18	Gross amount of unauthorized reinsurance in Schedule F – Part 3 excluded from Schedule F – Part 5	$
17.19	Unfunded portion of Interrogatory 17.18	$
17.20	Paid losses and loss adjustment expenses portion of Interrogatory 17.18	$
17.21	Case reserves portion of Interrogatory 17.18	$
17.22	Incurred but not reported portion of Interrogatory 17.18	$
17.23	Unearned premium portion of Interrogatory 17.18	$
17.24	Contingent commission portion of Interrogatory 17.18	$

18.1 Do you act as a custodian for health savings accounts? Yes [ ] No [X]

18.2 If yes, please provide the amount of custodial funds held as of the reporting date. $

18.3 Do you act as an administrator for health savings accounts? Yes [ ] No [X]

18.4 If yes, please provide the balance of the funds administered as of the reporting date. $

FIVE-YEAR HISTORICAL DATA

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

	1 2009	2 2008	3 2007	4 2006	5 2005
Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	2,877,270	(1,068,106)	793,950	(5,002,743)	22,472,322
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	16,921	114,977	(253,533)	(2,008,961)	1,299,270
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	(334,618)	192,185	(723,878)	(4,637,743)	527,821
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	1,449,044	2,477,670	2,923,905	11,623,275	6,500,480
5. Nonproportional reinsurance lines (Lines 31, 32 & 33)	475,110	866,564	117,587	5,115,067	31,692
6. Total (Line 35)	4,483,727	2,583,290	2,858,031	5,088,895	30,831,585
Net Premiums Written (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	2,187,780	(885,261)	6,374,690	5,346,070	8,808,723
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	51,665	1,182	293,488	104,930	707,042
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,498,203	591,268	(193,320)	259,419	1,131,312
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	344,217	6,385,876	3,198,013	3,895,945	(13,171,767)
11. Nonproportional reinsurance lines (Lines 31, 32 & 33)	0	12,531	346	54,643	(237,556)
12. Total (Line 35)	4,081,865	6,105,596	9,673,217	9,661,007	(2,762,246)
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	(169,526,121)	(153,907,140)	(139,170,703)	(212,151,242)	(225,300,503)
14. Net investment gain (loss) (Line 11)	47,929,992	59,475,722	64,760,335	80,620,898	68,978,876
15. Total other income (Line 15)	12,537,755	(983,790)	8,573,488	3,624,729	55,064,209
16. Dividends to policyholders (Line 17)	1,964,927	(5,727,457)	5,082,057	6,910,195	7,127,581
17. Federal and foreign income taxes incurred (Line 19)	(600,462)	(10,003,154)	(3,032,855)	(28,425,559)	(24,410,660)
18. Net income (Line 20)	(110,422,839)	(79,684,597)	(67,886,082)	(106,390,251)	(83,974,339)
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	1,124,027,285	1,407,872,250	1,684,247,514	2,136,458,926	2,735,065,059
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	(707,981)	3,923,601	7,243,968	27,374,791	74,550,449
20.2 Deferred and not yet due (Line 13.2)	8,665,035	11,054,085	21,907,984	29,607,577	47,995,805
20.3 Accrued retrospective premiums (Line 13.3)	9,741,523	17,251,970	16,881,174	34,138,540	58,656,689
21. Total liabilities excluding protected cell business (Page 3, Line 24)	1,115,904,007	1,294,700,035	1,533,583,128	1,962,866,314	2,566,751,908
22. Losses (Page 3, Line 1)	677,228,257	819,591,888	908,734,516	1,087,138,476	1,416,382,931
23. Loss adjustment expenses (Page 3, Line 3)	213,253,103	220,807,031	328,662,125	488,494,066	593,179,696
24. Unearned premiums (Page 3, Line 9)	2,569,021	3,663,958	5,405,172	9,463,192	19,045,951
25. Capital paid up (Page 3, Lines 28 & 29)	0	0	0	0	0
26. Surplus as regards policyholders (Page 3, Line 35)	8,123,278	113,172,215	150,664,386	173,592,612	168,313,151
Cash Flow (Page 5)					
27. Net cash from operations (Line 11)	(252,867,520)	(218,098,398)	(295,823,118)	(347,667,425)	(718,219,571)
Risk-Based Capital Analysis					
28. Total adjusted capital	8,123,278	113,172,215	150,664,386	173,592,612	168,313,151
29. Authorized control level risk-based capital	124,770,172	133,789,460	165,333,453	209,285,653	264,983,529
Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3)(Item divided by Page 2, Line 10, Col. 3) x 100.0					
30. Bonds (Line 1)	86.5	86.3	83.6	84.7	76.8
31. Stocks (Lines 2.1 & 2.2)	6.5	5.9	4.6	5.3	4.6
32. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.0	0.0	0.0	0.0	0.0
33. Real estate (Lines 4.1, 4.2 & 4.3)	0.0	0.0	0.0	0.3	0.2
34. Cash, cash equivalents and short-term investments (Line 5)	6.4	7.3	11.4	8.0	15.3
35. Contract loans (Line 6)	0.0	0.0	0.0	0.0	0.0
36. Other invested assets (Line 7)	0.6	0.5	0.5	1.8	1.4
37. Receivables for securities (Line 8)	0.0	0.0	0.0	0.0	1.6
38. Aggregate write-ins for invested assets (Line 9)	0.0	0.0	0.0	0.0	0.0
39. Cash, cash equivalents and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
40. Affiliated bonds, (Sch. D, Summary, Line 12, Col. 1)	0	0	0	0	0
41. Affiliated preferred stocks (Sch. D, Summary, Line 18, Col. 1)	0	0	0	0	0
42. Affiliated common stocks (Sch. D, Summary, Line 24, Col. 1)	59,602,259	68,938,419	59,677,331	85,535,429	91,424,689
43. Affiliated short-term investments (subtotals included in Schedule DA Verification, Col. 5, Line 10)	0	0	0	0	0
44. Affiliated mortgage loans on real estate		0	0	0	0
45. All other affiliated	5,315,221	5,315,221	5,315,221	27,666,041	27,437,526
46. Total of above Lines 40 to 45	64,917,480	74,253,640	64,992,552	113,201,470	118,862,215
47. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 46 above divided by Page 3, Col. 1, Line 35 x 100.0)	799.2	65.6	43.1	65.2	70.6

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2009	2 2008	3 2007	4 2006	5 2005
Capital and Surplus Accounts (Page 4)					
48. Net unrealized capital gains (losses) (Line 24)	(5,650,732)	11,586,654	(3,031,350)	1,986,345	2,373,602
49. Dividends to stockholders (Line 35)	0	0	0	0	0
50. Change in surplus as regards policyholders for the year (Line 38)	(105,048,937)	(37,492,171)	(22,928,226)	5,279,461	(3,121,729)
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
51. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	286,483,185	442,878,845	502,026,889	865,340,195	1,042,023,542
52. Property lines (Lines 1, 2, 9, 12, 21 & 26)	(77,925)	224,008	1,584,749	48,150	11,457,743
53. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	10,388,581	18,277,275	41,462,817	86,115,610	107,495,667
54. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	11,930,878	6,803,013	686,154	16,663,245	127,477,006
55. Nonproportional reinsurance lines (Lines 31, 32 & 33)	14,944,262	18,318,129	40,341,048	46,352,848	94,643,337
56. Total (Line 35)	323,668,981	486,501,270	586,101,657	1,014,520,048	1,383,097,295
Net Losses Paid (Page 9, Part 2, Col. 4)					
57. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	147,649,212	205,751,121	247,702,430	323,624,151	551,574,190
58. Property lines (Lines 1, 2, 9, 12, 21 & 26)	(54,881)	(230,279)	260,505	133,341	5,201,718
59. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	5,359,567	17,365,340	32,800,011	46,988,840	63,982,237
60. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	9,773,346	(30,091,462)	5,633,100	25,787,433	5,760,329
61. Nonproportional reinsurance lines (Lines 31, 32 & 33)	12,336,215	12,019,298	28,989,956	25,395,780	42,221,613
62. Total (Line 35)	175,063,459	204,814,018	315,386,002	421,929,545	668,740,087
Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
63. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
64. Losses incurred (Line 2)	631.7	1,474.1	997.6	481.6	323.3
65. Loss expenses incurred (Line 3)	1,111.3	(174.7)	(306.1)	258.3	381.0
66. Other underwriting expenses incurred (Line 4)	1,656.5	787.5	422.1	470.7	451.0
67. Net underwriting gain (loss) (Line 8)	(3,274.7)	(1,961.4)	(1,013.5)	(1,102.4)	(1,057.7)
Other Percentages					
68. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 35 x 100.0)	1,762.3	995.4	510.5	883.7	(1,503.5)
69. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	1,742.9	1,299.4	691.5	739.9	704.2
70. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 35 divided by Page 3, Line 35, Col. 1 x 100.0)	50.2	5.4	6.4	5.6	(1.6)
One Year Loss Development (000 omitted)					
71. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)	43,429	23,037	(11,693)	32,769	(17,799)
72. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 71 above divided by Page 4, Line 21, Col. 1 x 100.0)	38.4	15.3	(6.7)	19.5	(10.4)
Two Year Loss Development (000 omitted)					
73. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2 - Summary, Line 12, Col. 12)	67,052	11,396	16,611	(7,234)	(249,085)
74. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 73 above divided by Page 4, Line 21, Col. 2 x 100.0)	44.5	6.6	9.9	(4.2)	(123.0)

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes [ ] No [ ]

If no, please explain:

SCHEDULE P - ANALYSIS OF LOSSES AND LOSS EXPENSES
SCHEDULE P - PART 1 - SUMMARY

($000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned 1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	Loss and Loss Expense Payments: Loss Payments 4 Direct and Assumed	5 Ceded	Defense and Cost Containment Payments 6 Direct and Assumed	7 Ceded	Adjusting and Other Payments 8 Direct and Assumed	9 Ceded	10 Salvage and Subrogation Received	11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	12 Number of Claims Reported - Direct and Assumed
1. Prior	XXX	XXX	XXX	143,623	36,290	48,080	11,956	2,916	538	2,165	145,835	XXX
2. 2000	3,723,754	1,067,553	2,656,201	2,860,694	1,081,660	322,750	96,663	281,569	21,568	238,801	2,265,122	XXX
3. 2001	4,776,690	2,304,460	2,472,230	3,031,536	1,409,912	359,351	92,720	322,205	58,327	189,080	2,152,133	XXX
4. 2002	4,528,662	2,631,131	1,897,531	1,871,828	788,326	250,695	82,443	238,475	99,859	83,192	1,390,370	XXX
5. 2003	2,597,722	2,164,948	432,774	813,163	585,314	100,938	39,143	75,031	18,293	45,993	346,382	XXX
6. 2004	262,845	203,034	59,811	136,010	69,167	15,749	4,619	22,793	3,127	3,764	97,639	XXX
7. 2005	63,843	42,544	21,299	28,127	11,790	3,371	979	13,043	1,467	962	30,305	XXX
8. 2006	24,866	5,621	19,245	7,021	458	1,302	453	84	26	766	7,471	XXX
9. 2007	9,230	(4,501)	13,731	1,437	11	748	473	70	15	41	1,756	XXX
10. 2008	5,117	(2,729)	7,846	1,398	57	194	11	3	(1)	790	1,528	XXX
11. 2009	6,180	1,002	5,178	525	0	123	2	3	0	0	649	XXX
12. Totals	XXX	XXX	XXX	8,895,362	3,982,985	1,103,301	329,462	956,193	203,218	565,554	6,439,191	XXX

	Losses Unpaid: Case Basis 13 Direct and Assumed	14 Ceded	Bulk + IBNR 15 Direct and Assumed	16 Ceded	Defense and Cost Containment Unpaid: Case Basis 17 Direct and Assumed	18 Ceded	Bulk + IBNR 19 Direct and Assumed	20 Ceded	Adjusting and Other Unpaid 21 Direct and Assumed	22 Ceded	23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding - Direct and Assumed
1.	830,199	186,974	39,233	65,423	74,308	5,663	75,996	18,826	19,135	2,173	2,167	759,812	XXX
2.	213,161	147,353	39,540	40,353	7,959	5,237	23,045	16,243	3,961	459	512	78,021	XXX
3.	162,288	97,681	77,332	75,927	8,271	4,340	27,739	22,770	5,368	682	4,240	79,597	XXX
4.	135,396	69,681	73,794	58,645	8,137	3,248	32,520	18,919	6,490	841	1,648	105,003	XXX
5.	55,355	20,311	31,478	14,570	3,724	1,514	13,739	3,966	2,902	410	3,404	66,427	XXX
6.	8,961	2,921	3,692	1,636	1,705	944	1,395	344	327	33	102	10,202	XXX
7.	384	44	2,117	504	229	15	638	147	69	2	27	2,724	XXX
8.	1,317	142	902	210	201	21	483	119	95	2	120	2,504	XXX
9.	750	97	437	120	536	104	360	81	125	2	18	1,805	XXX
10.	1,579	215	240	179	20	0	905	152	78	2	810	2,274	XXX
11.	791	138	1,467	246	36	28	713	202	153	5	100	2,541	XXX
12. Totals	1,410,181	525,557	270,232	257,813	105,126	21,114	177,533	81,769	38,703	4,611	13,148	1,110,911	XXX

	Total Losses and Loss Expenses Incurred 26 Direct and Assumed	27 Ceded	28 Net	Loss and Loss Expense Percentage (Incurred/Premiums Earned) 29 Direct and Assumed	30 Ceded	31 Net	Nontabular Discount 32 Loss	33 Loss Expense	34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount 35 Losses Unpaid	36 Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	170,529	332	XXX	446,506	142,445
2.	3,752,679	1,409,536	2,343,143	100.8	132.0	88.2	13,135	74		51,860	12,952
3.	3,994,090	1,762,360	2,231,730	83.6	76.5	90.3	7,511	77		58,501	13,508
4.	2,617,335	1,121,962	1,495,373	57.8	42.6	78.8	15,309	98		65,555	24,041
5.	1,096,330	683,521	412,809	42.2	31.6	95.4	11,369	35		40,583	14,440
6.	190,632	82,791	107,842	72.5	40.8	180.3	996	1		7,100	2,105
7.	47,978	14,948	33,029	75.1	35.1	155.1	224	0		1,729	771
8.	11,406	1,430	9,975	45.9	25.4	51.8	184	0		1,683	637
9.	4,464	903	3,561	48.4	(20.1)	25.9	137	0		833	835
10.	4,418	615	3,803	86.3	(22.5)	48.5	217	0		1,208	849
11.	3,811	621	3,190	61.7	62.0	61.6	202	0		1,672	667
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	219,813	617	XXX	677,230	213,251

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

SCHEDULE P - PART 2 - SUMMARY

Years in Which Losses Were Incurred	INCURRED NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										DEVELOPMENT	
	1 2000	2 2001	3 2002	4 2003	5 2004	6 2005	7 2006	8 2007	9 2008	10 2009	11 One Year	12 Two Year
1. Prior	3,465,555	3,999,831	4,317,412	4,336,994	4,268,103	4,197,239	4,258,780	4,220,836	4,185,215	4,208,840	23,625	(11,996)
2. 2000	1,610,206	1,618,950	1,924,181	1,992,791	2,018,444	2,021,671	2,039,739	2,075,027	2,096,435	2,088,638	(7,797)	13,611
3. 2001	XXX	1,728,348	2,055,038	2,104,151	2,076,798	2,004,240	1,949,773	1,949,078	1,972,070	1,975,824	3,754	26,746
4. 2002	XXX	XXX	1,250,837	1,222,205	1,179,190	1,238,222	1,275,047	1,308,020	1,343,473	1,358,704	15,231	50,684
5. 2003	XXX	XXX	XXX	470,626	365,688	416,310	369,719	368,367	342,246	356,206	13,960	(12,161)
6. 2004	XXX	XXX	XXX	XXX	86,184	98,926	94,115	78,965	87,808	88,068	260	9,103
7. 2005	XXX	XXX	XXX	XXX	XXX	30,399	52,603	23,325	23,700	21,387	(2,313)	(1,938)
8. 2006	XXX	XXX	XXX	XXX	XXX	XXX	11,276	15,741	11,501	9,823	(1,678)	(5,918)
9. 2007	XXX	XXX	XXX	XXX	XXX	XXX	XXX	4,461	4,409	3,382	(1,027)	(1,079)
10. 2008	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	4,308	3,722	(586)	XXX
11. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,039	XXX	XXX
										12. Totals	43,429	67,052

SCHEDULE P - PART 3 - SUMMARY

Years in Which Losses Were Incurred	CUMULATIVE PAID NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										11	12
	1 2000	2 2001	3 2002	4 2003	5 2004	6 2005	7 2006	8 2007	9 2008	10 2009	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
1. Prior	000	929,810	1,459,903	1,816,612	2,259,793	2,603,242	2,872,122	3,063,777	3,234,216	3,377,673	XXX	XXX
2. 2000	759,838	1,237,516	1,532,059	1,637,902	1,771,898	1,866,599	1,923,160	1,966,005	1,993,581	2,005,121	XXX	XXX
3. 2001	XXX	727,783	1,210,266	1,461,707	1,652,384	1,749,284	1,769,445	1,827,517	1,854,314	1,888,255	XXX	XXX
4. 2002	XXX	XXX	459,740	553,991	781,826	950,162	1,091,115	1,165,877	1,227,873	1,251,754	XXX	XXX
5. 2003	XXX	XXX	XXX	(103,954)	66,876	199,618	251,705	294,877	276,234	289,644	XXX	XXX
6. 2004	XXX	XXX	XXX	XXX	33,452	47,607	56,189	60,271	74,357	77,973	XXX	XXX
7. 2005	XXX	XXX	XXX	XXX	XXX	14,594	17,354	18,162	18,739	18,729	XXX	XXX
8. 2006	XXX	XXX	XXX	XXX	XXX	XXX	7,161	8,781	8,496	7,412	XXX	XXX
9. 2007	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,013	1,178	1,701	XXX	XXX
10. 2008	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,355	1,524	XXX	XXX
11. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	646	XXX	XXX

SCHEDULE P - PART 4 - SUMMARY

Years in Which Losses Were Incurred	BULK AND IBNR RESERVES ON NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)									
	1 2000	2 2001	3 2002	4 2003	5 2004	6 2005	7 2006	8 2007	9 2008	10 2009
1. Prior	1,195,715	945,133	873,382	529,530	460,973	264,007	281,926	188,943	133,901	119,297
2. 2000	550,986	43,166	157,507	104,598	82,342	39,041	38,109	34,409	34,399	14,987
3. 2001	XXX	614,611	409,730	294,420	219,232	116,994	66,187	41,044	37,514	19,031
4. 2002	XXX	XXX	482,914	292,680	142,392	120,914	55,856	34,603	30,126	36,346
5. 2003	XXX	XXX	XXX	406,590	140,924	99,582	35,614	20,493	17,524	29,308
6. 2004	XXX	XXX	XXX	XXX	28,464	32,956	21,972	4,236	3,351	3,294
7. 2005	XXX	XXX	XXX	XXX	XXX	13,132	31,513	3,621	3,779	2,104
8. 2006	XXX	XXX	XXX	XXX	XXX	XXX	3,358	6,204	1,179	1,056
9. 2007	XXX	XXX	XXX	XXX	XXX	XXX	XXX	2,664	2,542	596
10. 2008	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	2,256	814
11. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,732

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

	1	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4	5	6	7	8	9
States, etc.	Active Status	2 Direct Premiums Written	3 Direct Premiums Earned	Dividends Paid or Credited to Policyholders on Direct Business	Direct Losses Paid (Deducting Salvage)	Direct Losses Incurred	Direct Losses Unpaid	Finance and Service Charges Not Included in Premiums	Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
1. Alabama AL	L	6,812	7,464	(19,093)	1,136,986	557,363	6,374,739	0	
2. Alaska AK	L	1,737	1,737	(4,122)	(241,179)	(928,917)	1,064,807	0	
3. Arizona AZ	L	(18,235)	(18,235)	(9,839)	3,263,077	(536,783)	8,968,310	0	
4. Arkansas AR	L	(35,170)	(35,159)	(5,428)	2,351,638	39,901	1,022,649	0	
5. California CA	L	1,558,611	1,586,748	(464,839)	19,425,667	19,250,311	91,798,387	0	
6. Colorado CO	L	(83,616)	(77,928)	(23,534)	480,623	487,234	2,162,821	0	
7. Connecticut CT	L	24,349	24,473	(20,618)	1,424,339	(347,274)	4,189,606	0	
8. Delaware DE	L	49,040	49,611	(6,523)	282,143	804,765	3,918,741	0	
9. District of Columbia DC	L	(1,968)	(1,968)	(5,833)	315,287	585,999	1,522,390	0	
10. Florida FL	N	(94,509)	(93,241)	(73,619)	6,301,339	912,850	11,511,524	0	
11. Georgia GA	L	(136,827)	(131,938)	(55,056)	(9,878,777)	(14,504,139)	17,213,668	0	
12. Hawaii HI	L	(243,883)	(226,016)	(5,205)	542,796	449,535	2,351,531	0	
13. Idaho ID	L	(7,105)	(7,105)	(7,368)	12,500	5,916	894	0	
14. Illinois IL	L	(148,854)	(148,874)	(800,716)	25,832,117	11,683,371	29,993,835	0	
15. Indiana IN	L	39,707	39,707	(11,122)	3,015,378	3,249,634	4,656,308	0	
16. Iowa IA	L	(138,259)	(138,259)	(11,145)	282,075	431,070	1,629,057	0	
17. Kansas KS	L	(36,005)	(36,005)	(5,121)	(217,082)	(1,849,759)	260,924	0	
18. Kentucky KY	L	(54,617)	(54,617)	(10,824)	1,398,275	(18,365)	14,333,532	0	
19. Louisiana LA	L	1,483	1,483	(210)	1,482,606	1,795,478	2,591,198	0	
20. Maine ME	L	(2,098)	(2,098)	(14,042)	23,720	(28,570)	116,802	0	
21. Maryland MD	L	3,715	4,980	(126,327)	5,105,647	(1,944,252)	4,739,154	0	
22. Massachusetts MA	L	175,220	179,575	(73,852)	2,133,306	(1,262,776)	8,772,886	0	
23. Michigan MI	L	161,937	162,192	(34,998)	6,309,994	(374,273)	10,872,770	0	
24. Minnesota MN	L	(68,335)	(68,335)	(51,655)	1,578,920	697,561	5,127,006	0	
25. Mississippi MS	L	15,135	15,135	(13,209)	69,711	398,878	597,054	0	
26. Missouri MO	L	(20,893)	(20,624)	(11,852)	600,300	848,473	3,048,381	0	
27. Montana MT	L	10,120	10,120	(20,871)	297,657	79,908	651,843	0	
28. Nebraska NE	L	(43,762)	(43,762)	(8,060)	108,850	132,962	2,011,310	0	
29. Nevada NV	L	(301,691)	(298,043)	(2,725)	977,479	655,126	999,754	0	
30. New Hampshire NH	L	5,368	5,460	(8,661)	196,257	(936,778)	1,567,289	0	
31. New Jersey NJ	L	(11,485)	300,649	(44,236)	8,069,002	27,391,608	58,993,928	0	
32. New Mexico NM	L	(29,738)	(29,617)	(5,551)	121,443	506,338	721,131	0	
33. New York NY	L	168,731	285,102	(276,833)	28,814,292	24,773,189	83,293,082	0	
34. North Carolina NC	L	(27,252)	(27,253)	(387,030)	1,964,636	2,300,867	10,154,864	0	
35. North Dakota ND	L	27	27	(146)	406	815	54	0	
36. Ohio OH	L	(3,298,458)	(3,298,458)	(7,583)	1,782,197	(3,031,630)	7,430,189	0	
37. Oklahoma OK	L	(40,760)	(38,691)	(7,374)	351,327	(588,270)	1,121,504	0	
38. Oregon OR	L	(66,496)	(66,496)	(93,725)	312,988	(480,541)	3,427,050	0	
39. Pennsylvania PA	L	(45,547)	(45,317)	(86,103)	8,682,711	(2,014,114)	16,796,648	0	
40. Rhode Island RI	L	6,225	6,440	(1,324)	186,806	491,770	6,062,923	0	
41. South Carolina SC	L	(11,859)	(11,571)	(20,340)	1,087,676	1,126,522	10,350,562	0	
42. South Dakota SD	L	(2,725)	(2,725)	(9,482)	(103,778)	(622,124)	123,121	0	
43. Tennessee TN	L	51,123	51,422	(48,020)	1,389,453	496,028	8,461,382	0	
44. Texas TX	L	13,759	15,323	(85,934)	6,424,130	2,253,839	61,983,005	0	
45. Utah UT	L	(4,574)	(4,574)	(4,940)	611,590	613,206	341,926	0	
46. Vermont VT	L	735	2,893	(4,948)	201,085	689,834	993,100	0	
47. Virginia VA	L	74,059	77,578	(105,898)	2,349,829	897,875	5,426,379	0	
48. Washington WA	L	5,382	5,382	(1,221)	2,632,109	(1,447,627)	1,896,329	0	
49. West Virginia WV	L	1,139	1,139	(803)	18,178	26,093	149,508	0	
50. Wisconsin WI	L	(596,680)	(596,680)	(125,244)	307,346	(1,084,777)	2,084,253	0	
51. Wyoming WY	L	310	310	(7,276)	9,855	(16,792)	153,920	0	
52. American Samoa AS	N	0	0	0	0	0	0	0	
53. Guam GU	N	0	0	0	0	0	0	0	
54. Puerto Rico PR	N	0	0	0	(40,109)	(784,483)	330,497	0	
55. U.S. Virgin Islands VI	N	0	0	0	0	0	0	0	
56. Northern Mariana Islands MP	N	0	0	0	0	0	0	0	
57. Canada CN	L	763	763	(94,376)	384,381	(458,600)	55,020	0	
58. Aggregate other alien OT	XXX	(1,044,054)	(1,038,908)	0	2,110,716	(1,189,489)	3,262,893	0	0
59. Totals	(a) 50	(4,239,968)	(3,726,784)	(3,324,854)	142,279,918	70,183,986	527,682,438	0	0
DETAILS OF WRITE-INS									
5801. Asia	XXX	12,675	12,675	0	0	(585,123)	1,652	0	0
5802. Australia	XXX	(1,054,365)	(1,054,365)	0	0	79	114	0	0
5803. Europe	XXX	(12,675)	(7,529)	0	2,110,716	(605,857)	3,259,264	0	0
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX	10,311	10,311	0	0	1,412	1,863	0	0
5899. Totals (Lines 5801 through 5803 + 5898) (Line 58 above)	XXX	(1,044,054)	(1,038,908)	0	2,110,716	(1,189,489)	3,262,893	0	0

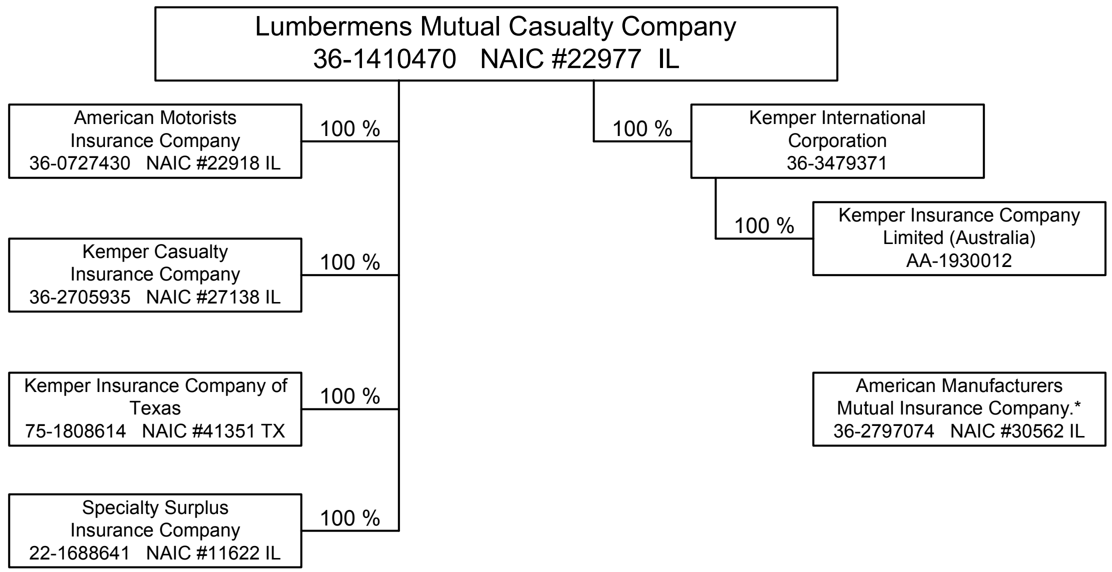
Explanation of basis of allocation of premiums by states, etc.

Premiums are allocated on the basis of the location of the risk, the insured or the insured's operations.

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

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

PART 1 - ORGANIZATIONAL CHART



* American Manufacturers Mutual Insurance Company is an affiliated mutual company.

Percentages show common stock ownership as of 12/31/2009.

ALPHABETICAL INDEX

ANNUAL STATEMENT BLANK

ANNUAL STATEMENT BLANK (Continued)

ALPHABETICAL INDEX

ANNUAL STATEMENT BLANK (Continued)

ANNUAL STATEMENT BLANK (Continued)

ALPHABETICAL INDEX

ANNUAL STATEMENT BLANK (Continued)