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PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2010

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 Corporate Drive, Suite 200 (Street and Number), Long Grove, IL 60049-0001 (City or Town, State and Zip Code)

Main Administrative Office 1 Corporate Drive, Suite 200 (Street and Number) Lake Zurich, IL 60047-8945 (City or Town, State and Zip Code) 847-320-2000 (Area Code) (Telephone Number)

Mail Address 1 Corporate Drive, Suite 200 (Street and Number or P.O. Box), Lake Zurich, IL 60047-8945 (City or Town, State and Zip Code)

Primary Location of Books and Records 1 Corporate Drive, Suite 200 (Street and Number) Lake Zurich, IL 60047-8945 (City or Town, State and Zip Code) 847-320-3127 (Area Code) (Telephone Number)

Internet Website Address www.lmcco.com

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

Fred.Griffith@lmcco.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

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 18th day of February, 2011

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 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	Prior Year 4 Net Admitted Assets
1. Bonds (Schedule D)	626,204,457		626,204,457	805,880,134
2. Stocks (Schedule D):				
2.1 Preferred stocks	0		0	0
2.2 Common stocks	61,256,203		61,256,203	60,979,750
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 ($ 3,759,362 , Schedule E - Part 1), cash equivalents ($ 2,494,550 , Schedule E - Part 2) and short-term investments ($ 39,131,099 , Schedule DA)	45,385,011		45,385,011	59,334,761
6. Contract loans (including $ premium notes)			0	0
7. Derivatives			0	
8. Other invested assets (Schedule BA)	13,253,905		13,253,905	5,618,196
9. Receivables for securities	378,263		378,263	0
10. Securities lending reinvested collateral assets			0	
11. Aggregate write-ins for invested assets	0	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11)	746,477,839	0	746,477,839	931,812,841
13. Title plants less $ charged off (for Title insurers only)			0	0
14. Investment income due and accrued	6,418,300		6,418,300	6,139,131
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection	(139,667)	2,910,404	(3,050,071)	(707,981)
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ earned but unbilled premium)	4,702,697	54,795	4,647,902	8,665,035
15.3 Accrued retrospective premiums	7,116,313	145,780	6,970,533	9,741,523
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers	48,274,309		48,274,309	82,629,828
16.2 Funds held by or deposited with reinsured companies	17,421,859		17,421,859	11,184,035
16.3 Other amounts receivable under reinsurance contracts			0	0
17. Amounts receivable relating to uninsured plans			0	0
18.1 Current federal and foreign income tax recoverable and interest thereon	130,378		130,378	383,396
18.2 Net deferred tax asset			0	0
19. Guaranty funds receivable or on deposit			0	0
20. Electronic data processing equipment and software	1,311,962	258,274	1,053,688	0
21. Furniture and equipment, including health care delivery assets ($)			0	0
22. Net adjustment in assets and liabilities due to foreign exchange rates	6,553		6,553	0
23. Receivables from parent, subsidiaries and affiliates	548,769	5,670	543,099	251,269
24. Health care ($) and other amounts receivable			0	0
25. Aggregate write-ins for other than invested assets	75,559,011	3,898,220	71,660,791	73,928,208
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	907,828,323	7,273,143	900,555,180	1,124,027,285
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
28. Total (Lines 26 and 27)	907,828,323	7,273,143	900,555,180	1,124,027,285
DETAILS OF WRITE-INS				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page	0	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)	0	0	0	0
2501. Amounts receivable under high deductible policies	6,846,376	3,557,086	3,289,290	4,664,499
2502. Advance to claims service provider	6,358,668		6,358,668	8,292,510
2503. Other admitted assets	62,353,967	341,134	62,012,833	60,971,199
2598. Summary of remaining write-ins for Line 25 from overflow page	0	0	0	0
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	75,559,011	3,898,220	71,660,791	73,928,208

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 35, Column 8)	507,745,337	677,228,257
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	11,787,683	22,869,036
3. Loss adjustment expenses (Part 2A, Line 35, Column 9)	179,014,511	213,253,103
4. Commissions payable, contingent commissions and other similar charges	(60,619)	407,204
5. Other expenses (excluding taxes, licenses and fees)	8,714,647	11,418,403
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	6,847,264	9,326,453
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 $ 1,151,861 and including warranty reserves of $ 33,822)	1,491,220	2,569,021
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)	825,901	331,486
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	7,601,274	2,133,617
14. Amounts withheld or retained by company for account of others	49,074,264	72,666,145
15. Remittances and items not allocated	666,498	1,029,380
16. Provision for reinsurance (Schedule F, Part 7)	0	0
17. Net adjustments in assets and liabilities due to foreign exchange rates		434,296
18. Drafts outstanding		0
19. Payable to parent, subsidiaries and affiliates		0
20. Derivatives		
21. Payable for securities		0
22. Payable for securities lending		
23. Liability for amounts held under uninsured plans		0
24. Capital notes $ .... and interest thereon $		0
25. Aggregate write-ins for liabilities	91,982,549	102,237,606
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	865,690,529	1,115,904,007
27. Protected cell liabilities		0
28. Total liabilities (Lines 26 and 27)	865,690,529	1,115,904,007
29. Aggregate write-ins for special surplus funds	0	0
30. Common capital stock		0
31. Preferred capital stock		0
32. Aggregate write-ins for other than special surplus funds	1,500,000	1,500,000
33. Surplus notes	698,355,598	698,355,598
34. Gross paid in and contributed surplus		0
35. Unassigned funds (surplus)	(664,990,947)	(691,732,320)
36. Less treasury stock, at cost:		
36.1 .... shares common (value included in Line 30 $ ....)		0
36.2 .... shares preferred (value included in Line 31 $ ....)		0
37. Surplus as regards policyholders (Lines 29 to 35, less 36) (Page 4, Line 39)	34,864,651	8,123,278
38. Totals (Page 2, Line 28, Col. 3)	900,555,180	1,124,027,285
DETAILS OF WRITE-INS		
2501. Accounts payable and other liabilities	34,958,875	102,237,606
2502. Deferred credit - prescribed accounting practices	57,023,674	0
2503.		
2598. Summary of remaining write-ins for Line 25 from overflow page	0	0
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	91,982,549	102,237,606
2901.		
2902.		
2903.		
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)	0	0
3201. Guaranty fund	1,500,000	1,500,000
3202.		
3203.		
3298. Summary of remaining write-ins for Line 32 from overflow page	0	0
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 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)	1,174,429	5,176,802
	DEDUCTIONS:		
2.	Losses incurred (Part 2, Line 35, Column 7)	(15,667,273)	32,699,827
3.	Loss adjustment expenses incurred (Part 3, Line 25, Column 1)	16,886,067	57,529,029
4.	Other underwriting expenses incurred (Part 3, Line 25, Column 2)	39,922,350	85,753,838
5.	Aggregate write-ins for underwriting deductions	(137,989)	(1,279,771)
6.	Total underwriting deductions (Lines 2 through 5)	41,003,155	174,702,923
7.	Net income of protected cells		0
8.	Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	(39,828,726)	(169,526,121)
	INVESTMENT INCOME		
9.	Net investment income earned (Exhibit of Net Investment Income, Line 17)	26,979,669	46,651,058
10.	Net realized capital gains (losses) less capital gains tax of $ .... (Exhibit of Capital Gains (Losses))	4,233,407	1,278,934
11.	Net investment gain (loss) (Lines 9 + 10)	31,213,076	47,929,992
	OTHER INCOME		
12.	Net gain (loss) from agents' or premium balances charged off (amount recovered $ 46,433 amount charged off $ (5,275,609))	5,322,042	4,981,532
13.	Finance and service charges not included in premiums		0
14.	Aggregate write-ins for miscellaneous income	9,569,746	7,556,223
15.	Total other income (Lines 12 through 14)	14,891,788	12,537,755
16.	Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	6,276,138	(109,058,374)
17.	Dividends to policyholders	(1,290,894)	1,964,927
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)	7,567,032	(111,023,301)
19.	Federal and foreign income taxes incurred	(475,145)	(600,462)
20.	Net income (Line 18 minus Line 19) (to Line 22)	8,042,177	(110,422,839)
	CAPITAL AND SURPLUS ACCOUNT		
21.	Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	8,123,278	113,172,215
22.	Net income (from Line 20)	8,042,177	(110,422,839)
23.	Net transfers (to) from Protected Cell accounts		0
24.	Change in net unrealized capital gains or (losses) less capital gains tax of $	9,318,654	(5,650,732)
25.	Change in net unrealized foreign exchange capital gain (loss)	440,850	1,050,710
26.	Change in net deferred income tax		39,982,855
27.	Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 28, Col. 3)	1,829,239	(31,273,709)
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 36.1 and 36.2, Column 2 minus Column 1)	0	0
37.	Aggregate write-ins for gains and losses in surplus	7,110,453	1,264,778
38.	Change in surplus as regards policyholders for the year (Lines 22 through 37)	26,741,373	(105,048,937)
39.	Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 37)	34,864,651	8,123,278
	DETAILS OF WRITE-INS		
0501.	Change in premium deficiency reserve	(137,989)	(1,279,771)
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)	(137,989)	(1,279,771)
1401.	Other income	9,569,746	7,556,223
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)	9,569,746	7,556,223
3701.	Provision for uncollectible reinsurance	7,110,453	1,264,778
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)	7,110,453	1,264,778

CASH FLOW

	1 Current Year	2 Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance	8,751,649	15,733,603
2. Net investment income	30,722,089	52,744,627
3. Miscellaneous income	8,653,964	13,599,785
4. Total (Lines 1 through 3)	48,127,702	82,078,015
5. Benefit and loss related payments	130,541,481	165,190,380
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	96,559,789	176,256,739
8. Dividends paid to policyholders	(4,143,138)	(5,660,561)
9. Federal and foreign income taxes paid (recovered) net of $ .... tax on capital gains (losses)	(728,164)	(841,023)
10. Total (Lines 5 through 9)	222,229,968	334,945,535
11. Net cash from operations (Line 4 minus Line 10)	(174,102,266)	(252,867,520)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	246,657,863	499,523,618
12.2 Stocks	1,196,848	2,166,776
12.3 Mortgage loans	0	0
12.4 Real estate	0	0
12.5 Other invested assets	364,033	685,752
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	155	(9,033)
12.7 Miscellaneous proceeds	0	0
12.8 Total investment proceeds (Lines 12.1 to 12.7)	248,218,899	502,367,113
13. Cost of investments acquired (long-term only):		
13.1 Bonds	67,631,936	288,263,769
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	378,263	0
13.7 Total investments acquired (Lines 13.1 to 13.6)	68,010,199	288,263,769
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)	180,208,700	214,103,344
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)	(20,056,184)	11,738,579
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(20,056,184)	11,738,579
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)	(13,949,750)	(27,025,597)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	59,334,761	86,360,358
19.2 End of year (Line 18 plus Line 19.1)	45,385,011	59,334,761

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS EARNED

	Line 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	(678)	3	0	(675)
2.	Allied lines	0	0	0	0
3.	Farmowners multiple peril	0	0	0	0
4.	Homeowners multiple peril	(114)	0	0	(114)
5.	Commercial multiple peril	(3,983)	82,088	80,396	(2,291)
6.	Mortgage guaranty	0	0	0	0
8.	Ocean marine	0	0	0	0
9.	Inland marine	(20,217)	287	849	(20,779)
10.	Financial guaranty	0	0	0	0
11.1	Medical professional liability - occurrence	0	0	0	0
11.2	Medical professional liability - claims-made	0	0	0	0
12.	Earthquake	0	0	0	0
13.	Group accident and health	0	0	0	0
14.	Credit accident and health (group and individual)	0	0	0	0
15.	Other accident and health	2,898	0	0	2,898
16.	Workers' compensation	(118,704)	104	284	(118,884)
17.1	Other liability - occurrence	(5,015)	(48,407)	10,841	(64,263)
17.2	Other liability - claims-made	0	872,882	537,931	334,951
17.3	Excess workers' compensation	0	0	0	0
18.1	Products liability - occurrence	3,772	131,254	117,246	17,780
18.2	Products liability - claims-made	0	0	0	0
19.1,19.2	Private passenger auto liability	0	0	0	0
19.3,19.4	Commercial auto liability	(1,257)	0	0	(1,257)
21.	Auto physical damage	(3,368)	0	0	(3,368)
22.	Aircraft (all perils)	14,323	0	0	14,323
23.	Fidelity	0	0	0	0
24.	Surety	228,971	1,401,949	709,851	921,069
26.	Burglary and theft	0	0	0	0
27.	Boiler and machinery	0	0	0	0
28.	Credit	0	0	0	0
29.	International	0	0	0	0
30.	Warranty	0	128,861	33,822	95,039
31.	Reinsurance - nonproportional assumed property	0	0	0	0
32.	Reinsurance - nonproportional assumed liability	0	0	0	0
33.	Reinsurance - nonproportional assumed financial Lines	0	0	0	0
34.	Aggregate write-ins for other lines of business	0	0	0	0
35.	TOTALS	96,628	2,569,021	1,491,220	1,174,429
	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 + 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					0
2.	Allied lines					0
3.	Farmowners multiple peril					0
4.	Homeowners multiple peril					0
5.	Commercial multiple peril	80,396				80,396
6.	Mortgage guaranty					0
8.	Ocean marine					0
9.	Inland marine		849			849
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	284				284
17.1	Other liability - occurrence		10,841			10,841
17.2	Other liability - claims-made		537,931			537,931
17.3	Excess workers' compensation					0
18.1	Products liability - occurrence		117,246			117,246
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	649,069	60,782			709,851
26.	Burglary and theft					0
27.	Boiler and machinery					0
28.	Credit					0
29.	International					0
30.	Warranty		33,822			33,822
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	729,749	761,471	0	0	1,491,220
36.	Accrued retrospective premiums based on experience					
37.	Earned but unbilled premiums					
38.	Balance (Sum of Lines 35 through 37)					1,491,220
	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	(872)		(2,438)		(2,632)	(678)
2.	Allied lines			(2,312)		(2,312)	0
3.	Farmowners multiple peril						0
4.	Homeowners multiple peril		(910)			(796)	(114)
5.	Commercial multiple peril	61,176	(250)	(17,738,317)		(17,673,408)	(3,983)
6.	Mortgage guaranty						0
8.	Ocean marine						0
9.	Inland marine	29,240	50	(406)		49,101	(20,217)
10.	Financial guaranty						0
11.1	Medical professional liability - occurrence			1,000		1,000	0
11.2	Medical professional liability - claims-made						0
12.	Earthquake			(813)		(813)	0
13.	Group accident and health						0
14.	Credit accident and health (group and individual)						0
15.	Other accident and health	2,898					2,898
16.	Workers' compensation	(266,056)	2,142,108	122,279		2,117,035	(118,704)
17.1	Other liability - occurrence	(2,300)	(53,442)	1,492		(49,235)	(5,015)
17.2	Other liability - claims-made			(2)		(2)	0
17.3	Excess workers' compensation						0
18.1	Products liability - occurrence	(3,741)	10			(7,503)	3,772
18.2	Products liability - claims-made			1,500		1,500	0
19.1,19.2	Private passenger auto liability						0
19.3,19.4	Commercial auto liability	22,836	(18,352)	1,000		6,741	(1,257)
21.	Auto physical damage	(844)	(2,265)			259	(3,368)
22.	Aircraft (all perils)	(9,586)		10,917		(12,992)	14,323
23.	Fidelity						0
24.	Surety	201,550	55,924	15,859	37,106	7,256	228,971
26.	Burglary and theft						0
27.	Boiler and machinery						0
28.	Credit						0
29.	International						0
30.	Warranty						0
31.	Reinsurance - nonproportional assumed property	XXX					0
32.	Reinsurance - nonproportional assumed liability	XXX		290,221		290,221	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	34,301	2,122,873	(17,300,020)	37,106	(15,276,580)	96,628
	DETAILS OF WRITE-INS						
3401.							
3402.							
3403.							
3498.	Sum. 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 recorded on an annualized basis $

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - LOSSES PAID AND INCURRED

	Line of Business	Losses Paid Less Salvage 1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)	5 Net Losses Unpaid Current Year (Part 2A, Col. 8)	6 Net Losses Unpaid Prior Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
1.	Fire		1,133	1,299	(166)	101,373	(1,279,082)	1,380,289	(204,487.3)
2.	Allied lines	(828)	1,076	2,725	(2,477)	1,191	117	(1,403)	0.0
3.	Farmowners multiple peril				0	0	0	0	0.0
4.	Homeowners multiple peril	10,955	139,711	42,308	108,358	614,687	3,083,306	(2,360,261)	2,070,404.4
5.	Commercial multiple peril	84,390	(4,853,682)	(8,574,854)	3,805,562	29,519,137	30,746,163	2,578,536	(112,550.7)
6.	Mortgage guaranty				0	0	0	0	0.0
8.	Ocean marine		(74,726)	(35,890)	(38,836)	22,732	21,261	(37,365)	0.0
9.	Inland marine	215,602	(8,403)	137,794	69,405	208,456	(36,057)	313,918	(1,510.7)
10.	Financial guaranty				0	0	0	0	0.0
11.1	Medical professional liability - occurrence		990	990	0	42,397	39,441	2,956	0.0
11.2	Medical professional liability - claims-made		(6,906)	(6,906)	0	21,700	(26,677)	48,377	0.0
12.	Earthquake		(611)	(611)	0	(70,796)	(71,136)	340	0.0
13.	Group accident and health	5,930,025	302,072	67,694	6,164,403	24,709,369	33,144,064	(2,270,292)	0.0
14.	Credit accident and health (group and individual)				0	0	0	0	0.0
15.	Other accident and health	14,525			14,525	54,644	(198,005)	267,174	9,219.3
16.	Workers' compensation	50,949,192	99,027,683	63,883,264	86,093,611	426,368,187	466,107,622	46,354,176	(38,991.1)
17.1	Other liability - occurrence	51,288,783	24,671,676	49,908,491	26,051,968	11,362,248	44,210,110	(6,795,894)	10,575.1
17.2	Other liability - claims-made	15,508,300	19,326,998	15,942,023	18,893,275	19,054,298	26,743,642	11,203,931	3,344.9
17.3	Excess workers' compensation	6,233,876	3,480,312	8,399,361	1,314,827	8,779,665	12,302,991	(2,208,499)	0.0
18.1	Products liability - occurrence	2,206,196	5,334,352	14,421,723	(6,881,175)	(8,140,406)	(24,306,313)	9,284,732	52,220.1
18.2	Products liability - claims-made		3,045	3,045	0	635	(7,163)	7,798	0.0
19.1,19.2	Private passenger auto liability	2,335,858	1,079,162	1,952,492	1,462,528	936,199	2,951,493	(552,766)	0.0
19.3,19.4	Commercial auto liability	1,370,760	386,594	2,622,191	(864,837)	(1,115,920)	3,405,348	(5,386,105)	428,488.9
21.	Auto physical damage	(28,624)	(111,517)	38,376	(178,517)	(106,484)	(86,410)	(198,591)	5,896.4
22.	Aircraft (all perils)	14,063,194	268,985	14,079,842	252,337	1,675,629	3,654,848	(1,726,882)	(12,056.7)
23.	Fidelity	(42,196)	(8,203)	(9,212)	(41,187)	(67,378)	83,764	(192,329)	0.0
24.	Surety	1,244,460	5,064,700	920,245	5,388,915	4,243,886	10,174,929	(542,128)	(58.9)
26.	Burglary and theft				0	0	0	0	0.0
27.	Boiler and machinery				0	(7,231)	(7,191)	(40)	0.0
28.	Credit	(346,079)	(75,463)	(255,233)	(166,309)	0	1	(166,310)	0.0
29.	International				0	0	0	0	0.0
30.	Warranty		316,746		316,746	3,254	313	319,687	336.4
31.	Reinsurance - nonproportional assumed property	XXX			0	(259,209)	304,396	(563,605)	0.0
32.	Reinsurance - nonproportional assumed liability	XXX	35,216,248	23,163,557	12,052,691	46,816,748	66,272,482	(7,403,043)	0.0
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	(57,023,674)	0	(57,023,674)	0.0
35.	TOTALS	151,038,389	189,481,972	186,704,714	153,815,647	507,745,337	677,228,257	(15,667,273)	(1,334.0)
	DETAILS OF WRITE-INS								
3401.	Prescribed accounting practices				0	(57,023,674)	0	(57,023,674)	0.0
3402.									
3403.									
3498.	Sum. 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	(57,023,674)	0	(57,023,674)	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	16,237	30,850	30,946	16,141	(40,726)	152,735	26,777	101,373	(2,149)
2.	Allied lines	262	2,545	2,331	476	2,895	898	3,078	1,191	(195)
3.	Farmowners multiple peril				0				0	
4.	Homeowners multiple peril	95,291	198,699	158,077	135,913	27,348	2,876,228	2,424,802	614,687	(493,875)
5.	Commercial multiple peril	2,912,413	11,320,989	3,102,026	11,131,376	4,526,089	16,432,293	2,570,621	29,519,137	19,515,392
6.	Mortgage guaranty				0				0	
8.	Ocean marine	30	22,825		22,855	(14)	(109)		22,732	17,548
9.	Inland marine	256,030	36,943	292,921	52	(3,136)	217,946	6,406	208,456	(197,984)
10.	Financial guaranty				0				0	
11.1	Medical professional liability - occurrence	20,000	52,673	24,099	48,574	(3,376)	3,098	5,899	42,397	18,549
11.2	Medical professional liability - claims-made	30,000	35,120	44,483	20,637	(2,970)	28,193	24,160	21,700	1,685
12.	Earthquake		4,244	4,244	0		(70,023)	773	(70,796)	(1,336)
13.	Group accident and health	30,686,024	547,909		31,233,933	(5,492,277)	(537,807)	494,480	(a) 24,709,369	506,490
14.	Credit accident and health (group and individual)				0				0	
15.	Other accident and health				0		54,644		(a) 54,644	
16.	Workers' compensation	270,209,895	552,205,666	209,928,440	612,487,121	(22,713,269)	(28,291,762)	135,113,903	426,368,187	115,727,539
17.1	Other liability - occurrence	16,094,169	12,352,891	13,035,273	15,411,787	9,606,466	4,692,915	18,348,920	11,362,248	18,688,937
17.2	Other liability - claims-made	12,495,871	11,958,194	12,373,996	12,080,069	8,166,870	7,177,347	8,369,988	19,054,298	4,487,916
17.3	Excess workers' compensation	9,477,721	5,107,484	3,416,619	11,168,586	(1,105,020)	271,808	1,555,709	8,779,665	1,480,629
18.1	Products liability - occurrence	8,454,739	6,116,872	10,522,267	4,049,344	3,449,578	(3,013,695)	12,625,633	(8,140,406)	23,787,094
18.2	Products liability - claims-made				0		5,049	4,414	635	266
19.1,19.2	Private passenger auto liability	2,505,876	2,373,555	3,279,297	1,600,134	927,955	(1,002,851)	589,039	936,199	331,378
19.3,19.4	Commercial auto liability	1,586,928	1,608,533	2,544,648	650,813	(7,331,178)	5,977,945	413,500	(1,115,920)	479,777
21.	Auto physical damage	4,050	97,968	100,861	1,157	32,237	(68,296)	71,582	(106,484)	5,898
22.	Aircraft (all perils)	27,832,434	2,828,600	27,910,495	2,750,539	541,315	(577,391)	1,038,834	1,675,629	595,993
23.	Fidelity	4,703	2,437	268	6,872	(96,133)	(27,051)	(48,934)	(67,378)	2,719
24.	Surety	1,269,701	8,222,947	(164,173)	9,656,821	(2,251,533)	(4,275,129)	(1,113,727)	4,243,886	841,356
26.	Burglary and theft				0				0	
27.	Boiler and machinery	20			20	13	(7,264)		(7,231)	5
28.	Credit				0				0	
29.	International				0				0	
30.	Warranty		74		74		3,180		3,254	950
31.	Reinsurance - nonproportional assumed property	XXX	1,386,725	1,386,725	0	XXX	(4,975,623)	(4,716,414)	(259,209)	188,719
32.	Reinsurance - nonproportional assumed liability	XXX	54,853,005	10,980,500	43,872,505	XXX	16,177,152	13,232,909	46,816,748	232,193
33.	Reinsurance - nonproportional assumed financial lines	XXX			0	XXX			0	
34.	Aggregate write-ins for other lines of business	0	0	0	0	(51,735,591)	(26,188,125)	(20,900,042)	(57,023,674)	(7,200,983)
35.	TOTALS	383,952,394	671,367,748	298,974,343	756,345,799	(63,494,457)	(14,963,695)	170,142,310	507,745,337	179,014,511
	DETAILS OF WRITE-INS									
3401.	Prescribed accounting practices				0	(51,735,591)	(26,188,125)	(20,900,042)	(57,023,674)	(7,200,983)
3402.										
3403.										
3498.	Sum. 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	(51,735,591)	(26,188,125)	(20,900,042)	(57,023,674)	(7,200,983)

(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	(15,204,025)			(15,204,025)
1.2 Reinsurance assumed	14,507,543			14,507,543
1.3 Reinsurance ceded	(12,905,974)			(12,905,974)
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	12,209,492	0	0	12,209,492
2. Commission and brokerage:				
2.1 Direct, excluding contingent		21,189		21,189
2.2 Reinsurance assumed, excluding contingent		(4,041,677)		(4,041,677)
2.3 Reinsurance ceded, excluding contingent		(4,433,929)		(4,433,929)
2.4 Contingent-direct				0
2.5 Contingent-reinsurance assumed				0
2.6 Contingent-reinsurance ceded		3,705,957		3,705,957
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	(3,292,516)	0	(3,292,516)
3. Allowances to manager and agents				0
4. Advertising				0
5. Boards, bureaus and associations		(396,393)		(396,393)
6. Surveys and underwriting reports				0
7. Audit of assureds' records				0
8. Salary and related items:				
8.1 Salaries	3,693,560	28,043,797	317,827	32,055,184
8.2 Payroll taxes	251,600	1,402,285	11,804	1,665,689
9. Employee relations and welfare	449,419	1,062,376	18,177	1,529,972
10. Insurance		1,680,802		1,680,802
11. Directors' fees		113,338		113,338
12. Travel and travel items	53,313	124,697	7,592	185,602
13. Rent and rent items	195,949	2,487,288	333	2,683,570
14. Equipment	3,274	161,702		164,976
15. Cost or depreciation of EDP equipment and software		563,628		563,628
16. Printing and stationery	9,353	182,527	7,426	199,306
17. Postage, telephone and telegraph, exchange and express	9,353	345,527	776	355,656
18. Legal and auditing	6,547	4,739,952	711,667	5,458,166
19. Totals (Lines 3 to 18)	4,672,368	40,511,526	1,075,602	46,259,496
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of $ (1,618,858)		395,522		395,522
20.2 Insurance department licenses and fees		532,279		532,279
20.3 Gross guaranty association assessments		(1,618,858)		(1,618,858)
20.4 All other (excluding federal and foreign income and real estate)		(1,394,613)		(1,394,613)
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)	0	(2,085,670)	0	(2,085,670)
21. Real estate expenses				0
22. Real estate taxes				0
23. Reimbursements by uninsured plans				0
24. Aggregate write-ins for miscellaneous expenses	4,207	4,789,010	401,983	5,195,200
25. Total expenses incurred	16,886,067	39,922,350	1,477,585	(a) 58,286,002
26. Less unpaid expenses - current year	179,014,511	76,229,077	36,300	255,279,888
27. Add unpaid expenses - prior year	213,253,103	82,419,842	36,300	295,709,245
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)	51,124,659	46,113,115	1,477,585	98,715,359
DETAILS OF WRITE-INS				
2401. All other	4,207	4,789,010	401,983	5,195,200
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)	4,207	4,789,010	401,983	5,195,200

(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) 3,670,653	3,050,033
1.1	Bonds exempt from U.S. tax	(a)	
1.2	Other bonds (unaffiliated)	(a) 23,406,679	24,313,457
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	500,000	500,000
3.	Mortgage loans	(c)	
4.	Real estate	(d)	
5.	Contract loans		
6.	Cash, cash equivalents and short-term investments	(e) 109,283	102,295
7.	Derivative instruments	(f)	
8.	Other invested assets	249,780	249,780
9.	Aggregate write-ins for investment income	241,689	241,689
10.	Total gross investment income	28,178,084	28,457,254
11.	Investment expenses		(g) 1,477,585
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)		1,477,585
17.	Net investment income (Line 10 minus Line 16)		26,979,669
	DETAILS OF WRITE-INS		
0901.	Income from other sources	241,689	241,689
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)	241,689	241,689
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 $ 515,279 accrual of discount less $ 5,038,777 amortization of premium and less $ 8,937 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 $ 54,892 accrual of discount less $ 33,950 amortization of premium and less $ .... 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	2,299,483		2,299,483		
1.1	Bonds exempt from U.S. tax			0		
1.2	Other bonds (unaffiliated)	1,388,537	112,232	1,500,769	73,496	
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)	0	(567,300)	(567,300)	6,232	0
2.21	Common stocks of affiliates	0	1,000,300	1,000,300	1,034,068	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	155		155	0	0
7.	Derivative instruments			0		
8.	Other invested assets	0	0	0	7,938,684	0
9.	Aggregate write-ins for capital gains (losses)	0	0	0	266,174	0
10.	Total capital gains (losses)	3,688,175	545,232	4,233,407	9,318,654	0
	DETAILS OF WRITE-INS					
0901.	Change in deferred gain on investment transfers from subsidiaries			0	266,174	
0902.				0		
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	0	0	266,174	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. Derivatives	0		0
8. Other invested assets (Schedule BA)	0	0	0
9. Receivables for securities	0	0	0
10. Securities lending reinvested collateral assets	0		0
11. Aggregate write-ins for invested assets	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11)	0	0	0
13. Title plants (for Title insurers only)	0	0	0
14. Investment income due and accrued	0	0	0
15. Premiums and considerations:			
15.1 Uncollected premiums and agents' balances in the course of collection	2,910,404	4,688,736	1,778,332
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	54,795	77,846	23,051
15.3 Accrued retrospective premiums	145,780	227,034	81,254
16. Reinsurance:			
16.1 Amounts recoverable from reinsurers	0	0	0
16.2 Funds held by or deposited with reinsured companies	0	0	0
16.3 Other amounts receivable under reinsurance contracts	0	0	0
17. Amounts receivable relating to uninsured plans	0	0	0
18.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0
18.2 Net deferred tax asset	0		0
19. Guaranty funds receivable or on deposit	0	0	0
20. Electronic data processing equipment and software	258,274	0	(258,274)
21. Furniture and equipment, including health care delivery assets	0	0	0
22. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
23. Receivables from parent, subsidiaries and affiliates	5,670	444	(5,226)
24. Health care and other amounts receivable	0	0	0
25. Aggregate write-ins for other than invested assets	3,898,220	4,108,322	210,102
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	7,273,143	9,102,382	1,829,239
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0
28. Total (Lines 26 and 27)	7,273,143	9,102,382	1,829,239
DETAILS OF WRITE-INS			
1101.			
1102.			
1103.			
1198. Summary of remaining write-ins for Line 11 from overflow page	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)	0	0	0
2501. Amounts receivable under high deductible policies	3,557,086	3,785,951	228,865
2502. Other admitted assets	341,134	322,371	(18,763)
2503.	0	0	0
2598. Summary of remaining write-ins for Line 25 from overflow page	0	0	0
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	3,898,220	4,108,322	210,102

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 operated under the trade names of "Kemper" and the "Kemper Insurance Companies". The Company and its affiliates have ceased use of the name "Kemper" and the "Kemper Insurance Companies" and will continue winding up their operations under the trade name "Lumbermens Mutual Group" ("LMG"). This change occurred as result of LMG's sale of its rights in the Kemper name to Unitrin, Inc. ("Unitrin") on June 29, 2010. Two of the Company's insurance affiliates received approval from their domicilary states to change their legal names effective September 30, 2010. Kemper Casualty Insurance Company is now known as Lumbermens Casualty Insurance Company ("LCIC") and Kemper Insurance Company of Texas is now known as Lumbermens Insurance Company of Texas ("LICT").

Under administrative supervision by the Illinois Department of Insurance (the "Department"), the Company and LMG 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 2010 and 2009.

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, 2010 and 2009 reflects increases of $298.3 million and $287.5 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:

Prescribed or Permitted Practices	December 31, 2010	December 31, 2009	Increase/ (Decrease)
	(In thousands)		
Loss and LAE Reserve Discounting	$ 204,239	220,433	(16,194)
Prepaid Expenses	15,028	18,748	(3,720)
Provision for Uncollectible Reinsurance	7,927	166	7,761
Annuity Reinsurance Contracts	11,686	10,082	1,604
Subsidiary Audited Financials	7,441	4,101	3,340
Funds Held with Reinsured Companies	5,876	5,489	387
LBA and GFA	30,957	28,443	2,514
Real Estate Joint Venture	7,939	-	7,939
Unallocated Loss Adjustment Expenses	7,201	-	7,201
Correction of Error	0	-	0
Retroactive Reinsurance Agreements	0	0	0
Direct Loss and ALAE Reserves	30,836	-	30,836
Assumed Loss and ALAE Reserves	26,188	-	26,188
Deferred Credit	(57,024)	-	(57,024)
Total	$ 298,294	287,462	10,832

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 32.) At December 31, 2010, the total amount of the tabular and non-tabular discount, included on the balance sheet and on Schedule P, was
$279.0 million; the total was $340.8 million at December 31, 2009. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been under the tabular discount by $204.2 million at December 31, 2010 and $220.4 million at December 31, 2009. At December 31, 2010, the Company's book yield on cash and invested assets, excluding affiliate investments, was approximately 3.5%. (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, 2010 and 2009 prepaid expense assets primarily related to insurance and rent expenses. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by $15.0 million at December 31, 2010 and $18.7 million at December 31, 2009.

NOTES TO FINANCIAL STATEMENTS

3. Provision for Uncollectible Reinsurance. Pursuant to a prescribed accounting practice, the Company established a general provision for uncollectible reinsurance, net of discount, of $17.9 million at December 31, 2010 and $25.0 million at December 31, 2009. The Schedule F penalty otherwise prescribed by the Manual would have been $25.8 million at December 31, 2010 and $25.2 million at December 31, 2009. 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 $1.4 million at December 31, 2010 and $2.7 million at December 31, 2009.

4. Annuity Reinsurance Contracts. Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2010 and 2009 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 reinsurance contracts totaled $13.3 million at both December 31, 2010 and 2009. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by $11.7 million at December 31, 2010 and $10.1 million at December 31, 2009.

5. Audited Financial Statements of Certain Subsidiaries. For 2010 and 2009, the Department granted a permitted accounting practice allowing the Company to forego the requirement to obtain audited financial statements for certain of the Company's subsidiaries. At December 31, 2010 and 2009, such subsidiaries had a combined statement value (surplus) of $7.4 million and $4.1 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. Funds Held with Reinsured Companies. Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2010 and 2009 reflects as admitted assets funds held with reinsured companies that exceed the liabilities they are intended to secure. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by $5.9 million at December 31, 2010 and $5.5 million at December 31, 2009.

7. Loss Based Assessment ("LBA") and Guaranty Fund Assessment ("GFA") Liabilities. Pursuant to a prescribed accounting practice, the Company discounts its LBA liability at 4.2%. The prescribed accounting practice further allows the Company to calculate its December 31, 2010 and 2009 LBA liability based on an estimate of LBA payments to be made within two years of the date of the statutory financial statements. A prescribed accounting practice for 2010 allows the Company to forego the requirement to record an estimate of guaranty fund assessments that have been authorized by certain guaranty funds but not called. With these prescribed practices, the Company's reported surplus exceeded what it would have been by $31.0 million at December 31, 2010 and $28.4 million at December 31, 2009.

8. Real Estate Joint Venture. The balance sheet of the Company at December 31, 2010 and 2009 reflects as other invested assets a real estate acquisition, development, and construction arrangement (ADC) as a real estate joint venture. As reflected on the balance sheet, the real estate joint venture is valued at $13.2 million at December 31, 2010 and $5.3 million at December 31, 2009. Pursuant to a prescribed accounting practice, the Company is allowed to increase the carrying value at December 31, 2010 of the real estate joint venture by 50% of the difference between its December 31, 2010 cost and the fair value as determined by an external appraisal performed at December 31, 2010. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by $7.9 million at December 31, 2010.

9. Unallocated Loss Adjustment Expense Reserve. Pursuant to a prescribed accounting practice, the Company established its December 31, 2010 reserve for unallocated loss adjustment expense ("ULAE") based on an estimate of ULAE payments to be made within two years of the date of the statutory financial statements. The prescribed accounting practice further directs the Company to include in the reserve amounts that the Company has prepaid for claim handling services to two third-party administrators. (See Note 10.) With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by $7.2 million at December 31, 2010.

10. Reporting of Correction of Errors. As described in Note 2 "*Accounting Changes and Correction of Errors*" and more fully detailed in Note 21 "Other Items", during the first quarter of 2010 the Company identified errors aggregating approximately $5.0 million related to the preparation of its December 31, 2009 estimate for loss and LAE reserves. The Manual provides technical guidance to the effect that such error corrections be recorded in the current period as a direct adjustment to surplus. The Company recorded $5.0 million of those adjustments through its statement of operations in the first quarter of 2010, the adjustments resulted in a surplus reduction on the balance sheet. The Department has granted a permitted accounting practice to the Company to record in its statutory financial statements the corrections of errors through

NOTES TO FINANCIAL STATEMENTS

current year operations and has not required the Company to restate its 2009 statutory financial statements. This permitted practice has no impact on the Company's reported surplus at December 31, 2010.

11. 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 2010 and 2009 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.

12. At December 31, 2010 the Department has prescribed certain accounting practices that do not result in an increase to the December 31, 2010 surplus of the Company, but it is reasonably possible that the Company's surplus reported in future periods will benefit from the following prescribed accounting practices.

    a. Direct Loss and ALAE Reserves. Pursuant to a prescribed accounting practice, the Company has recorded an estimate for unpaid claims, losses, and allocated loss adjustment expense ("ALAE") related to direct business, less amounts ceded to reinsurers and discount, that is 5% less than management's best estimate. Under the direction of the Department, the Company has deferred the surplus benefit of this prescribed accounting practice at December 31, 2010 by recording a deferred credit that is summarized within the "Aggregate write-in for liabilities" line item on the Company's balance sheet. The deferred credit may be recognized in future periods and benefit surplus if the Company's surplus were otherwise to fall below a minimum surplus amount as ordered by the Department. Absent the direction by the Department to defer this prescribed accounting practice, the Company's reported surplus would have exceeded what its surplus would have been without the prescribed accounting practice by approximately $30.8 million at December 31, 2010.

    b. Assumed Loss and ALAE Reserves. Pursuant to a prescribed accounting practice, the Company has recorded an estimate for unpaid claims, losses, and ALAE related to assumed business, less offsets available to reinsurers and discount, based on an estimate of assumed reinsurance payments to be made within two years of the date of the statutory financial statements. Under the direction of the Department, the Company has deferred the surplus benefit of this prescribed accounting practice at December 31, 2010 by recording a deferred credit that is summarized within the "Aggregate write-in for liabilities" line item on the Company's balance sheet. The deferred credit may be recognized in future periods and benefit surplus if the Company's surplus were otherwise to fall below a minimum surplus amount as ordered by the Department. Absent the direction by the Department to defer this prescribed accounting practice, the Company's reported surplus would have exceeded what its surplus would have been without the prescribed accounting practice by approximately $26.2 million at December 31, 2010.

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 and 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 33, estimates of losses and LAE related to

NOTES TO FINANCIAL STATEMENTS

environmental and asbestos claims are also subject to a greater degree of uncertainty and variability. Policyholder dividend recalls (accrued retrospective premiums), LBA, and premium deficiency reserves 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 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.

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. (See Note 1.A.)

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 an ADC as a joint venture carried at its December 31, 2010 cost plus 50% of the difference between cost and fair value as determined by an external appraisal performed at December 31, 2010. (See Note 1.A.) At December 31, 2009, the joint venture was carried at cost after impairment writedowns, which approximated 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

NOTES TO FINANCIAL STATEMENTS

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 uses a discount rate as prescribed by the Department as a factor in determining loss and LAE reserves, LBA reserves, and the provision for uncollectible reinsurance, and anticipates investment income as a factor in determining its premium deficiency reserve.

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.

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 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

Correction of Errors

As detailed in Note 21 "Other Items", errors affecting the Company's December 31, 2009 surplus aggregating approximately $5.0 million were identified during the first quarter of 2010, though subsequent to the filing of its 2009 Annual Statement. Pursuant to a permitted accounting practice (see Note 1.A.), the correction of these errors has been presented in the accompanying statutory financial statements through current year operations.

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 Loan-Backed Securities

NOTES TO FINANCIAL STATEMENTS

The statement value and fair value of bonds at December 31, 2010 and 2009 were as follows:

		2010			
		Statement value	Gross unrealized gains	Gross unrealized losses	Fair value
		(In thousands)			
U.S. governments	$	53,268	3,209	(8)	56,469
Special revenue and assessment obligations and all non-guaranteed obligations of agencies and authorities of U.S. governments		19,201	368	(162)	19,407
Industrial and miscellaneous		401,035	10,157	(18,523)	392,669
Asset-backed securities		31,358	1,225	(376)	32,207
Mortgage-backed securities		121,342	1,966	(854)	122,454
Total bonds	$	626,204	16,925	(19,923)	623,206

		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 and assessment obligations and all non-guaranteed obligations of agencies and authorities of U.S. governments		24,135	376	(245)	24,266
Industrial and miscellaneous		439,422	11,430	(28,159)	422,693
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

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 is interest related, 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 and, therefore, does not have the intent to sell the investment.

The bonds shown in the table below, nearly all of which are rated "AA" or better, or are U.S. government obligations 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.

NOTES TO FINANCIAL STATEMENTS

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 gain or 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, 2010 and 2009, 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:

	2010				
	Number of issues		Gross unrealized losses		Fair value
	(In thousands)				
Bonds in a loss position more than 12 months:					
Special revenue and assessment obligations and all non-guaranteed obligations of agencies and authorities of U.S. governments	1	$	(162)		3,183
Industrial and miscellaneous[1]	2		(18,523)		139,880
Asset-backed securities	1		(329)		2,785
Mortgage-backed securities	3		(771)		9,565
	7		(19,785)		155,413
Bonds in a loss position less than 12 months:					
U.S. governments	2		(8)		5,560
Asset-backed securities	2		(47)		14,365
Mortgage-backed securities	6		(83)		10,944
	10		(138)		30,869
Total bonds in a loss position	17	$	(19,923)		186,282

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 and assessment obligations and all non-guaranteed obligations of agencies and authorities of U.S. governments	1	$	(225)		3,620
Industrial and 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 and assessment obligations and all non-guaranteed obligations of agencies and authorities of U.S. governments	3		(20)		2,735
Industrial and miscellaneous	2		(4)		1,953
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

[1] Includes two at December 31, 2010 and three at December 31, 2009 Berkshire Hathaway Group ("Berkshire") (which is rated "AA") bonds with gross unrealized losses of $18.5 million and fair values of $139.9 million at December 31, 2010 and with gross unrealized losses of $27.5 million and fair values of $138.8 million at December 31, 2009.

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 2010 and 2009, respectively, the Company recognized $84 thousand and $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.

NOTES TO FINANCIAL STATEMENTS

The Company's holding at December 31, 2010 in a loan-backed bond which recognized other-than-temporary impairments 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	Impairment date
23242MAA9	$ 1,106	61	1,045	1,026	03/31/10
23242MAA9	859	23	836	821	06/30/10

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

F. Real Estate
None.

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, 2010.

8. DERIVATIVE INSTRUMENTS

None.

NOTES TO FINANCIAL STATEMENTS

9. INCOME TAXES

A. The components of the Company's net deferred tax asset/(deferred tax liability) ("DTA"/"(DTL)") at December 31, 2010 and 2009 and the change in those components are as follows. Paragraph ("Para") references refer to SSAP No. 10R.

	2010		
	Ordinary	Capital	Total
	(In thousands)		
Gross DTA	$ 738,616	$ 21,453	$ 760,069
Statutory valuation allowance	(737,160)	(21,427)	(758,587)
Adjusted gross DTA	1,456	26	1,482
Gross DTL	(1,456)	(26)	(1,482)
Net DTA/(DTL) before admissibility test	$ –	$ –	$ –
Admitted pursuant to para. 10.a. carryback period	$ –	$ –	$ –
Para. 10.b.i. DTA's realized within one year	–	–	–
Para. 10.b.ii. 10% surplus limitation	–	–	–
Admitted pursuant to para. 10.b. (lesser of i. or ii.)	–	–	–
Admitted pursuant to para. 10.c. offset against DTLs	(1,456)	(26)	(1,482)
Admitted DTA (sum of 10a, b, c above)	(1,456)	(26)	(1,482)
DTL	1,456	26	1,482
Net admitted DTA/(DTL)	$ –	$ –	$ –
	2009		
	Ordinary	Capital	Total
	(In thousands)		
Gross DTA	$ 742,926	$ 21,841	$ 764,767
Statutory valuation allowance	(741,386)	(21,805)	(763,191)
Adjusted gross DTA	1,540	36	1,576
Gross DTL	(1,540)	(36)	(1,576)
Net DTA/(DTL)	$ –	$ –	$ –
Admitted pursuant to para. 10.a. carryback period	$ –	$ –	$ –
Para. 10.b.i. DTA's realized within one year	–	–	–
Para. 10.b.ii. 10% surplus limitation	–	–	–
Admitted pursuant to para. 10.b. (lesser of i. or ii.)	–	–	–
Admitted pursuant to para. 10.c. offset against DTLs	(1,540)	(36)	(1,576)
Admitted DTA (sum of 10a, b, c above)	(1,540)	(36)	(1,576)
DTL	1,540	36	1,576
Net admitted DTA/(DTL)	$ –	$ –	$ –

	Change During 2010		
	Ordinary	Capital	Total
	(In thousands)		
Gross DTA	$ (4,310)	$ (388)	$ (4,698)
Statutory valuation allowance	4,226	378	4,604
Adjusted gross DTA	(84)	(10)	(94)
Gross DTL	84	10	94
Net DTA/(DTL) before admissibility test	$ –	$ –	$ –
Admitted pursuant to para. 10.a. carryback period	$ –	$ –	$ –
Para. 10.b.i. DTA's realized within one year	–	–	–
Para. 10.b.ii. 10% surplus limitation	–	–	–
Admitted pursuant to para. 10.b. (lesser of i. or ii.)	–	–	–
Admitted pursuant to para. 10.c. offset against DTLs	84	10	94
Admitted DTA (sum of 10a, b, c above)	84	10	94
DTL	(84)	(10)	(94)
Net admitted DTA/(DTL)	$ –	$ –	$ –

B. DTLs are not recognized for the following amounts:
None.

NOTES TO FINANCIAL STATEMENTS

C. The components of current income tax expense are as follows:

	2010	2009
	(In thousands)	
Federal taxes before capital gains, net operating losses ("NOL"), and alternative minimum tax ("AMT")	$ (380)	$ (600)
Foreign taxes	–	–
Capital gains	(1,305)	(439)
NOL and capital loss carryforward	1,210	439
AMT	–	–
Prior period adjustments	–	–
Total current federal income taxes incurred	$ (475)	$ (600)

The main components of the December 31, 2010 and 2009 deferred tax amounts and the change in those components are as follows:

		2010	2009	Change
		(In thousands)		
DTA:	Ordinary:			
	Loss carryforwards	$ 673,963	$ 653,581	$ 20,382
	Investments	37,807	34,128	3,679
	Accrued Liabilities	7,100	29,659	(22,559)
	Receivables	8,891	11,933	(3,042)
	Section 197 intangibles	4,779	5,837	(1,058)
	Reserves	1,013	2,444	(1,431)
	Other	5,063	5,344	(281)
	Capital:			
	Capital loss carryforwards	7,518	7,801	(283)
	Investments	13,935	14,040	(105)
	Other	–	–	–
	Total gross DTA	760,069	764,767	(4,698)
	Adjustments to gross DTA	(758,587)	(763,191)	4,604
	Total adjusted gross DTA	$ 1,482	$ 1,576	$ (94)
DTL:	Ordinary:			
	Investments	$ (1,182)	$ (1,265)	$ 83
	Salvage and subrogation	(275)	(275)	–
	Capital:			
	Investments	(25)	(36)	11
	Other	–	–	–
	Total gross DTL	(1,482)	(1,576)	94
	Total DTA	1,482	1,576	(94)
	Total DTL	(1,482)	(1,576)	94
	Net DTA/(DTL)	$ –	$ –	$ –

NOTES TO FINANCIAL STATEMENTS

D. 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:

	2010	% of Pre-Tax Income $7,567,033
	(In thousands)	
Provision computed at statutory rate - 35%	$ 2,648	0.035%
Investments	(423)	-0.006%
Receivables	3,042	0.040%
Loss carryforwards	-	0.000%
Reserves	(19)	0.000%
All other	(169)	-0.002%
Total statutory income tax	$ 5,079	0.067%
Federal and foreign income taxes incurred	475	0.006%
Federal income tax on net capital gains	-	0.000%
Change in net deferred income taxes	4,604	0.061%
Total statutory income tax	$ 5,079	0.067%

E. At December 31, 2010, the Company had $1,925.6 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	$ 86,570
2010	2030	$ 51,741

At December 31, 2010, the Company had $1.2 million of capital loss carryforward which originated and expires as follows:

Origination year	Expiration year	Amount
		(In thousands)
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 2006 are closed for Internal Revenue Service ("IRS") examination. The Company is not currently under examination by the IRS for any open tax years.

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"), Lumbermens Casualty Insurance Company ("LCIC"), Lumbermens International Corporation ("LIC"), Lumbermens Insurance Company of Texas ("LICT"), Lumbermens Realty Corporation, Lumbermens 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

NOTES TO FINANCIAL STATEMENTS

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 Lumbermens Mutual Group. 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 26.

Significant Affiliate and Former Affiliate Transactions in 2010 and 2009

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, 2010 for a three-year period (2011, 2012, and 2013), 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 $0.5 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 2011.

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 disputed 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 the second quarter of 2010 the Company received approximately $3.5 million as a result of the arbitrator's ruling on the 2004 Earn-out Period. In January 2011, the Company received approximately $6.4 million as a result of the arbitrators ruling on the 2005 Earn-out Period. (See Note 22.) In accordance with the Manual, the Company is not carrying an admitted asset for any future recoveries from Broadspire.

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, 2010, the amount remaining in this trust was $2.7 million, down from $4.5 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 $10.6 million as of December 31, 2010 from $12.0 million as of December 31, 2009.

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 operated this business with a 100-year license to use the Kemper name in personal lines. As more fully described in

NOTES TO FINANCIAL STATEMENTS

Note 1, LMG in 2010 concluded the sale of its rights in the Kemper name to Unitrin. 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, 2010 and 2009, respectively, approximately $1.9 million and $3.5 million of the Company's gross outstanding loss and LAE reserves 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 LMG, formerly known as Kemper Insurance Companies, was downgraded to below an "A" level, National Indemnity Company ("NICO"), a member of the "AA" rated 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 members of LMG 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 LMG insured to directly submit claims to NICO in the event the respective LMG 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 $158.4 million at December 31, 2010, with cash in the amount of the reduction released to the Company in accordance with existing agreements. The investments were further reduced in early 2011, by approximately $4.3 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, 2010 and 2009, respectively, $21.0 million and $24.8 million of the Company's gross outstanding loss and LAE reserves were protected by the NICO cut-through. Note 23 and Schedule F show that the Company cedes to Berkshire (group 31) liabilities totaling $51.3 million at December 31, 2010.

NICO also separately provided, for initial and annual fees, an appeals bond facility that the Company and its affiliates used primarily in connection with litigated claims. The Company fully collateralized appeal bonds with the pledge of an investment in a Berkshire corporate obligation (Schedule D admitted asset) purchased from Berkshire. At December 31, 2010 and 2009, respectively, the Company pledged $0 and $75 thousand of its assets as collateral for this purpose.

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 $3.7 million at December 31, 2010 from $4.6 million as of December 31, 2009.

SeaBright Insurance Company

NOTES TO FINANCIAL STATEMENTS

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 $3.8 million at December 31, 2010 and 2009. SeaBright also provides, for agreed fees, certain claim handling services with respect to approximately 280 claims (accounting for $15.9 million of net outstanding loss and LAE reserves at December 31, 2010) 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 has no remaining Canadian in-force insurance policies and consequently no unearned premium liabilities. The Canadian branch assets 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.

During 2010, the Company entered into an Assumption Reinsurance Agreement ("Agreement") with Omega General Insurance Company ("Omega"), a Canadian insurance company which provided for Omega to assume all of the insurance policy liabilities of the Company's Canadian branch, with limited exceptions. As a result, this transaction will enable the wind up of the Company's Canadian branch, and, at a subsequent time, the repatriation of excess capital.

Pursuant to the transaction, Omega has assumed the Company's Canadian branch insurance liabilities net of reinsurance totaling approximately $0.5 million. In exchange, Omega received cash equal to the net insurance liabilities assumed plus approximately $1.3 million. In addition, from the Canadian branch assets the Company funded an adverse development fund with Omega totaling $5.0 million. The Agreement requires Omega to refund to the Company in 2016 the full amount of the adverse development fund adjusted for loss experience through December 2015. In accordance with the Manual, the Company has recorded an asset of $5.0 million based upon the adjustable feature of the Agreement. The Agreement received regulatory approval of the Department and the Office of the Superintendent of Financial Institutions Canada.

Assets of the Company's Canadian branch, reflected in the Company's balance sheet, totaled $2.6 million at December 31, 2010, down from $9.3 million at December 31, 2009. The decrease in the Company's Canadian assets during 2010 was primarily due to the Agreement described in this note. The Company plans to wind up and close its Canadian branch in 2011 and thereafter repatriate the remaining Canadian assets.

Other International Operations

The Company's other international operations during 2010 consisted of an Australian subsidiary, in run-off for more than a decade. The Australian subsidiary accounted for approximately $1.6 million of the Company's statutory surplus at December 31, 2010. 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 2010 or 2009.

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.

NOTES TO FINANCIAL STATEMENTS

The Company recorded return of capital and income dividends from the following wholly owned subsidiaries during 2010 and 2009:

	2010	2009
	(In thousands)	
LCIC[1]	$ 1,000	$ 1,500
SSIC[2]	500	12,000
LIC	135	522
LGA-17, Inc.	62	62
Total	$ 1,697	$14,084

[1]LCIC's Board of Directors approved a $1.0 million return of capital dividend payable November 30, 2010, and a $1.5 million return of capital dividend payable November 30, 2009, to the Company.

[2]SSIC's Board of Directors approved a $0.5 million income dividend payable November 30, 2010, and a $12.0 million income dividend payable November 30, 2009, to the Company.

Intercompany Transactions

The Company reported the following amounts due from (to) affiliates at December 31, 2010 and 2009:

Affiliate	December 31, 2010	December 31, 2009
	(In thousands)	
AMICO	$ (34)	$ (25)
AMM	62	237
SSIC	3	5
LCIC	126	(245)
LICT	2	2
All other affiliates	389	277
Total due from (to) affiliates	$ 548	$ 251

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

11. DEBT

None.

NOTES TO FINANCIAL STATEMENTS

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. 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 150 employees at December 31, 2010, reduced from 206 employees at December 31, 2009. To help stabilize the workforce, the Company maintains a retention plan providing for scheduled quarterly payments. The retention payments for 2010 and 2009 totaled $4.5 million and $4.9 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 approval from the Department 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 $3.5 million and $4.6 million under the incentive plans at December 31, 2010 and 2009, respectively. Incentive plan payments totaled $6.5 million in 2010 and $6.7 million in 2009.

Restricted Stock, Other Deferred Compensation, and Stock Option Plans

The Company carried deferred compensation liabilities of approximately $0.2 million at December 31, 2010 and 2009.

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.

NOTES TO FINANCIAL STATEMENTS

E. Postemployment Benefits and Compensated Absences

The Company maintains an employee severance program that 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 2010 and 2009 totaled $3.5 million and $1.4 million, respectively, and severance liabilities recorded at December 31, 2010 and 2009 totaled $0.4 million and $0.8 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 $0.6 million and $1.2 million as of December 31, 2010 and 2009, respectively.

F. Impact of Medicare Modernization on Postretirement Benefits

None.

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

At December 31, 2010, unassigned surplus included unrealized capital gains of $44.9 million including unrealized foreign exchange capital gain of $7 thousand.

The Company had the following surplus notes issued and outstanding at December 31, 2010:

			Amounts in thousands				
Interest Rate/ Description	**Issue Date**	**Maturity Date**	**Par or Face Value**	**Carrying Value of Surplus Notes**	**Interest Paid 2009-2010**	**Total Interest Paid**	**Accrued Interest 12/31/10**
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, 2010 and 2009.

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 2010 and 2009 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 2010 for which scheduled interest payment dates have not yet arrived, totaled $495.3 million as of December 31, 2010. In accordance with SAP, this total amount is not reflected as a liability on the Company's balance sheet as of December 31, 2010.

NOTES TO FINANCIAL STATEMENTS

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 $334.1 million related to structured settlement annuities. (See Note 27.)

Securities on Deposit/Encumbered Assets

Of the Company's cash and invested assets at December 31, 2010, $419.6 million are encumbered by being on deposit or held in trust or escrow arrangements, compared with $481.3 million one year earlier, as shown in the following table:

	December 31, 2010	December 31, 2009
Special Deposits/Encumbered Assets:		(In thousands)
State Deposits	$ 235,588	$ 280,869
NICO Cut-Through Collateral	158,403	166,178
NICO Appeal Bond Collateral	0	75
Canada Deposits	2,533	9,455
All Other	23,095	24,710
	419,619	481,287
Unencumbered Assets:		
Cash, Bonds and Receivable for Securities	252,349	383,928
Affiliate Common Stock	60,440	59,602
Other Assets	14,070	6,996
	326,859	450,526
Cash and Invested Assets	$ 746,478	$ 931,813

The Company received releases of encumbered assets from states totaling $45.3 million and $51.8 million during 2010 and 2009, 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.

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, 2010 and 2009, the Company had pledged invested and other assets of $0 and $0.6 million, respectively, for such bonds.

Of the Company's invested assets at December 31, 2010, $158.4 million provide collateral for Berkshire affiliates related to the NICO cut-through agreements. (See Note 10.) This amount reflects a $7.8 million reduction from a year earlier. Of the cut-through encumbered assets at December 31, 2010, $58.4 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 LMG policies that have the benefit of cut-through agreements.

The Company is contingently liable to provide up to an estimated additional $1.9 million in collateral due to ratings triggers in reinsurance agreements where it is a reinsurer. Of this amount, $3.0 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 $28.9 million at December 31, 2010. Alea also has handled claims on behalf of the Company since 1999 on both the fronted liabilities and, at December 31, 2010, $19.7 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.

NOTES TO FINANCIAL STATEMENTS

In addition to the encumbrances applicable to the Company's cash and invested assets that 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 totaling approximately $17.4 million, as shown on line 16.2 on the Company's balance sheet at December 31, 2010. Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2010 and 2009 reflects as admitted assets funds held with reinsured companies that exceed the liabilities they are intended to secure. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by $5.9 million at December 31, 2010 and $5.5 million at December 31, 2009. See Note 1.A.) Additionally, certain reinsurance recoverables 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 ($64 thousand at December 31, 2010). 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 Markel is responsible for handling and paying; SSIC's related encumbered reinsurance assets totaled $1.4 million at December 31, 2010.

NOTES TO FINANCIAL STATEMENTS

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 2010 and prior. The Company's financial statements include provisions for all known assessments that are expected to be levied against the Company. A prescribed accounting practice for 2010 allows the Company to forego the requirement to record an estimate of guaranty fund assessments that have been authorized by certain guaranty funds but not called. With this prescribed practice, the Company's reported surplus exceeded what it would have been by $1.3 million at December 31, 2010. (See Note 1.A.) 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, 2010. The Company also established a liability for premium and loss based assessments of $6.1 million as of December 31, 2010, compared with approximately $7.0 million as of December 31, 2009. A prescribed accounting practice allows the Company to discount at 4.2% and to calculate its December 31, 2010 and 2009 LBA liability based on an estimate of LBA payments to be made within two years of the date of the statutory financial statements. With this prescribed practice, the Company's reported surplus exceeded what it would have been by $29.7 million at December 31, 2010 and $28.4 million at December 31, 2009. (See Note 1.A.)

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	$ 62,172

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 seven years, 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 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 eight 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 affiliates have also entered into consent agreements with certain other states under which the Company agreed to cease writing business in those jurisdictions. In 2010, Alaska notified the Company that its license was suspended after the March 31, 2010 surplus fell below the Alaska surplus requirement. The Company continues to pay claims in Alaska and will seek a removal of the suspension as the Company has been in full compliance with the Alaska requirements including the surplus requirement. In 2007, Florida notified the Company that its license expired by operation of law due to the prior suspension of the license in 2004. The license is not required for the Company to continue to handle claims, or to liquidate assets or liabilities, from its prior operations. In 2005, the Company also agreed for its Tennessee license to be suspended with the Company permitted to maintain its license and pay claims, but not to write any new business.

Surplus Considerations

At December 31, 2010, the Company’s balance sheet shows that its admitted assets exceed its liabilities by $34.9 million, a $26.7 million increase in surplus from the level reported one year earlier.

The primary reasons for the increase in surplus in 2010 were the consummation of surplus-enhancing transactions with third parties, reduced expenses as a result of operational improvements, and certain accounting practices prescribed by the Department in 2010 that increased surplus.

During 2010 and 2009, the Company's operating and other expenses (including amortization of the discount on loss and LAE reserves) have exceeded operating revenue (investment income, earned premium, and other income) by between $4.0 million and $5.0 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 2010 net effective yield on its cash and invested assets, excluding affiliate investments, declined to approximately 3.4% from the 3.5% rate in 2009. 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 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 2010, policy buybacks, novations, and assumed reinsurance commutations collectively added approximately $58.3 million to the Company’s surplus, for a net decrease in liquidity of approximately $19.0 million. In 2009, they added approximately $23.9 million to surplus for a net decrease in liquidity of approximately $8.8 million. Buybacks, novations, and assumed reinsurance commutations resulted in the Company’s gross and net loss and LAE reserves declining by $187.8 million and $106.5 million, respectively, in 2010 and by $54.7 million and $39.9 million, respectively, in 2009.

In 2010 and 2009, the Company’s surplus benefited by $8.7 million and $11.2 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 2010 and 2009 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 generation of surplus from transactions to partially 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.

NOTES TO FINANCIAL STATEMENTS

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 $326.9 million of unencumbered assets at December 31, 2010 shown in the table under ***Securities on Deposit/Encumbered Assets*** above in this Note 14 includes approximately $74.5 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, converting illiquid assets to liquid assets, 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.

NOTES TO FINANCIAL STATEMENTS

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 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 2010 and 2009 was $2.8 million and $3.8 million, respectively.

At December 31, 2010, the total aggregate minimum rental commitments on operating leases is $2.4 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)
2011		$ 1,030
2012		1,070
2013		270
		$ 2,370

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.

NOTES TO FINANCIAL STATEMENTS

20. FAIR VALUE MEASUREMENTS

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

Fair values are determined for existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and certain liabilities that are not considered financial instruments. For example, the Company's subsidiaries are not considered financial instruments, and their value has not been incorporated into the fair value estimates. Accordingly, the aggregate fair value presented does not represent the underlying value of the Company.

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

Bonds: Fair values for bonds are 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.

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

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

Unaffiliated common stocks: Fair values for unaffiliated private placement common stocks are based on a discounted cash flow income approach and a cost approach.

Notes receivable: The fair value of notes receivable is determined in good faith by the Company's engaged portfolio manager based on the estimated timing of cash receipts and a discount rate appropriate for the borrower's credit status.

The statement values and fair values of the Company's financial instruments at December 31, 2010 and 2009 were as follows:

		2010		2009	
		Statement value	Fair value	Statement value	Fair value
		(In thousands)			
Financial instruments recorded as assets:					
Bonds	$	626,204	623,206	805,880	795,804
Cash, cash equivalents, and short-term investments		45,385	45,385	59,335	59,342
Unaffiliated common stocks		816	816	1,377	1,377
Notes receivable		0	0	303	359

The Company's financial assets carried at fair value have been classified, for disclosure purposes, based on a fair value hierarchy defined by SSAP No. 100, *Fair Value Measurements*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's classification is determined based on the lowest level input that is significant to its fair value measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

NOTES TO FINANCIAL STATEMENTS

Level 1 – Inputs are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

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

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

The following table summarizes assets measured at fair value at December 31, 2010:

		Fair value measurement category						Total statement
		Level 1		Level 2		Level 3		value
		(In thousands)						
Bonds (NAIC 3-6)								
Residential mortgage-backed	$	0		1,009		0		1,009
Total Bonds (NAIC 3-6)		0		1,009		0		1,009
Unaffiliated common stock Industrial & Miscellaneous		0		0		816		816
Total common stock (unaffiliated)		0		0		816		816
Total	$	0		1,009		816		1,825

The Company's Level 2 residential mortgage-backed bond was priced by the IDC independent pricing service which primarily uses matrix pricing methodologies.

The fair value of the Company's Level 3 private placement common stock is the present value of the Company's share of the equity value of Facility Ins Hldg Corp's (FIHC) class A common stock per its most recent audited financial statements. The equity value was discounted from the August 1, 2017 Special Dividend date provided for in FIHC's Articles of Incorporation using a 5% discount rate.

There were no transfers of assets measured at fair value between Level 1 and Level 2 during 2010.

The following table reconciles the December 31, 2010 and 2009 statement values of assets measured at fair value using significant Level 3 inputs:

		Bonds (NAIC 3-6) – residential mortgage-backed		Unaffiliated common stock – industrial & miscellaneous		Total
			(In thousands)			
Statement value at 12/31/2009		3,374		1,377		4,751
Transfers into Level 3	$	0		0		0
Transfers out of Level 3		(3,374)		0		(3,374)
Total gains or losses:						
Realized included in net income		0		(567)		(567)
Unrealized included in surplus		0		6		6
Amortization of premium/discount		0		0		0
Purchases		0		0		0
Issuances		0		0		0

NOTES TO FINANCIAL STATEMENTS

Sales		0		0		0
Settlements		0		0		0
Statement value at 12/31/2010	$	0		816		816

The Company's policy is to recognize transfers into and transfers out of the Level 3 category as of the beginning of the reporting period. The residential mortgage-backed securities were transferred from Level 3 to Level 2 because observable market data became available for these securities.

21. OTHER ITEMS

A. Extraordinary Items
None.

B. Troubled Debt Restructuring: Debtors
None.

C. Other Disclosures

Subsequent to the filing of the Company's 2009 Annual Statement on or about March 1, 2010, the Company became aware of certain facts that provided additional evidence with respect to conditions or circumstances that existed at the date of filing. These additional facts affected the estimates inherent in the process of preparing the 2009 Annual Statement and are referred to as Type I subsequent events in SSAP No. 9, *Subsequent Events*. In accordance with SSAP No. 9, all information that becomes available prior to the issuance of the statutory financial statements relating to a material Type I subsequent event shall be used by management to determine the related accounting estimate.

The Company has recorded the following adjustments to the Company's 2009 Annual Statement as filed which are reflected in the 2009 audited statutory financial statements:

	Net Loss		Surplus
As filed in 2009 Annual Statement	$(110,422,839)		$ 8,123,278
2009 Adjustments related to: Misapplication of facts related to development of certain losses and loss adjustment expenses	(5,034,144)		(5,034,144)
Total of all adjustments	(5,034,144)		(5,034,144)
As per 2009 audited statutory financial statements	$(115,456,983)		$ 3,089,134

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, 2010, 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	$ 10,330	10,311	9,590
Subsidiary investments	544	541	479
Total	$ 10,874	10,852	10,069

The Company did not recognize any other-than-temporary impairment losses during 2010 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.

22. EVENTS SUBSEQUENT

The Company performed an evaluation of subsequent events through February 28, 2011, the date the combined statutory financial statements were issued, and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the combined statutory financial statements as of December 31, 2010 except for the following.

As more fully described in Note 10 *Broadspire Transaction and Claim Handling*, a 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"). In an arbitration proceeding, the Company disputed the accuracy of the amounts paid by Broadspire for the 2005 earn-out period. In January of 2011 the Company received approximately $6.4 million as a result of the arbitrator's ruling on the 2005 Earn-out Period. In accordance with the Manual, the Company is not carrying an admitted asset for any future recoveries from Broadspire.

NOTES TO FINANCIAL STATEMENTS

23. 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, 2010, with the following reinsurers (and related group members):

FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER	AGGREGATE RECOVERABLE
				(In thousands)
13-2673100	31	22039	General Reinsurance Corp.	$ 24,009
47-6021331	31	20079	National Fire & Marine Insurance Co.	26,914
13-1988169	31	34835	National Reinsurance Corp.	328
			31 Group Total	51,251
94-6064430	33	20117	California Casualty Indemnity Exchange	1,972
			33 Group Total	1,972
13-1963496	38	20281	Federal Insurance Co.	2,143
			38 Group Total	2,143
47-0574325	98	32603	Berkley Insurance Co.	17,347
53-0067060	98	21784	Firemen's Insurance Co. of Washington D.C.	256
41-1232071	98	31003	Tri State Insurance Co. of Minnesota	347
			98 Group Total	17,950
35-0145400	111	19704	American States Insurance Co.	614
39-0264050	111	21458	Employers Insurance Co. of Wausau	4,286
04-1543470	111	23043	Liberty Mutual Insurance Co.	(146)
			111 Group Total	4,754
38-0865250	140	11991	National Casualty Co.	1,981
31-4177100	140	23787	Nationwide Mutual Insurance Co.	222
			140 Group Total	2,203
13-2781282	158	25070	Clearwater Insurance Co.	5,100
23-2745904	158	10019	Clearwater Select Insurance Co.	5,652
47-0698507	158	23680	Odyssey America Reinsurance Corp.	7,029
			158 Group Total	17,781
13-3440360	181	29700	North American Elite Insurance Co.	18
06-0839705	181	82627	Swiss Reinsurance Life & Health America Inc.	1,110
13-1675535	181	25364	Swiss Reinsurance America Corp.	190,483
48-0921045	181	39845	Westport Insurance Corp.	20,189
			181 Group Total	211,800
75-0620550	215	19887	Trinity Universal Insurance Co.	1,873
			215 Group Total	1,873
36-2114545	218	20443	Continental Casualty Co.	7,000
			218 Group Total	7,000
FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER	AGGREGATE RECOVERABLE
				(In thousands)

NOTES TO FINANCIAL STATEMENTS

06-0384680	361	11452	Hartford Steam Boiler Inspection & Insurance Co.	$ (11)
13-4924125	361	10227	Munich Reinsurance America, Inc.	39,852
			361 Group Total	39,841
74-0484030	408	60739	American National Insurance Co.	1,052
			408 Group Total	1,052
06-0237820	626	20699	Ace Property & Casualty Insurance Co.	1,934
06-6105395	626	20710	Century Indemnity Co.	13,523
			626 Group Total	15,457
13-3029255	749	39322	General Security National Insurance Co.	5,011
75-1444207	749	30058	SCOR Reinsurance Co.	20,886
			749 Group Total	25,897
23-1641984	796	10219	QBE Reinsurance Corp.	1,058
			796 Group Total	1,058
22-2005057	1120	26921	Everest Reinsurance Co.	1,219
			1120 Group Total	1,219
06-1430254	1279	10348	Arch Reinsurance Co.	1,726
			1279 Group Total	1,726
13-1290712	1285	20583	XL Reinsurance America, Inc.	2,055
			1285 Group Total	2,055
41-6009967	3548	24015	Northland Insurance Co.	38
41-0406690	3548	24767	St. Paul Fire & Marine Insurance Co.	1,542
06-0566050	3548	25658	Travelers Indemnity Co.	1,477
52-0515280	3548	25887	United States Fidelity & Guaranty Co.	957
			3548 Group Total	4,014
43-1898350	4684	11054	Maiden Reinsurance Co.	5,800
			4684 Group Total	5,800
13-5616275	4691	19453	Transatlantic Reinsurance Co.	3,286
			4691 Group Total	3,286
AA-3770114			Affinity Insurance Ltd.	2,559
AA-1580015			Aioi Nissay Dowa Insurance Co., Ltd.	1,185
AA-3190800			Alea (Bermuda) Ltd.	49,735
06-1022232		24899	Alea North America Insurance Co.	1,931
ZZ-0000119			Alice Re, Ltd.	1,627
AA-3190829			Alterra Bermuda Ltd.	53,642
AA-3771100			Archway Insurance Ltd.	1,267
AA-3770124			Columbus Insurance Ltd.	1,562
AA-3194130			Endurance Specialty Insurance Ltd.	2,143
23-2153760		39675	Excalibur Reinsurance Corp.	2,454
AA-9995022			Excess & Casualty Reinsurance Assn.	7,116
AA-9995013			Global Aerospace, Inc.	54,316
FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER	AGGREGATE RECOVERABLE
				(In thousands)
AA-1340125			Hannover Rueckversicherungs Ag	$ 1,571
AA-1340106			Hdi Hftpflchtvrbnd Der Deut Indst Versicher Auf Ge	1,141

NOTES TO FINANCIAL STATEMENTS

AA-9991159			Michigan Catastrophic Claims Assn.	1,049
AA-9991160			New Jersey Unsatisfied Claim & Judgement Fund	2,487
23-0580680		24457	Reliance Insurance Co.	3,951
AA-9991444			Texas Workers Compensation	13,497
ZZ-0000070			Washington State USL&H Comp Act Assigned Risk	1,856
41-1357750		10181	Workers Compensation Reinsurance Assn.	7,984
Total Aggregate Unsecured Reinsurance Recoverables in excess of 3% of the Company's surplus				$ 633,205

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)			
Century Indemnity Co.	$ 8,826	$ 0	$ 8,826	0
Clearwater Insurance Co.	2,101	0	2,101	0
Clearwater Select Insurance Co.	1,112	0	1,112	0
Employers Insurance Co. of Wausau	3,337	0	3,337	0
Mutual Reinsurance Bureau	55	55	0	0
National Casualty Co.	1,583	0	1,583	0
Odyssey America Reinsurance Corp.	1,494	0	1,494	0
Safety National Insurance Corp.	22	22	0	0
Total	$ 18,530	$ 77	$ 18,453	$ 0

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, 2010, is shown below:

	ASSUMED REINSURANCE		CEDED REINSURANCE		NET	
(In thousands)	**Premium Reserve**	**Commission Equity**	**Premium Reserve**	**Commission Equity**	**Premium Reserve**	**Commission Equity**
(i) Affiliates	$ 2,202	$ (190)	$ 18	$ 0	$ 2,184	$ (190)
(ii) All other	170	38	1,134	329	(964)	(291)
(iii) Total	$ 2,372	$ (152)	$ 1,152	$ 329	$ 1,220	$ (481)
(iv) Direct Unearned Premium Reserves: $271						

(2) Certain reinsurance agreements provide for additional or return commissions based on the actual loss experience of the reinsured business. At December 31, 2010, based on then current estimates, the Company's accrual for net contingent commissions was a net asset of approximately $27.2 million. This accrued amount is included in line 25 under "Assets" on the Company's December 31, 2010 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	$ (5,000)	$ 23,040	$ (28,040)
(ii) Sliding Scale Adjustments	0	0	(884)	884
(iii) Other Profit Commission Arrangements	0	0	0	0
(iv) Total	$ 0	$ (5,000)	$ 22,156	$ (27,156)

D. Uncollectible Reinsurance

The Company has written off in the current year reinsurance balances due from the companies listed below of $1.6 million.

NOTES TO FINANCIAL STATEMENTS

Reinsurer	Amount	Reflected As
	(In thousands)	
Continental Casualty Co.	$ 1,593	Other
Munich Reinsurance America	7	Other
Scor Reinsurance Co.	4	Other
Total	$ 1,604	

NOTES TO FINANCIAL STATEMENTS

E. Commutation of Ceded Reinsurance

The Company has reported the following amounts in its 2010 operations year as a result of commutations of ceded reinsurance with the companies listed below:

Reinsurer	FEIN Code	Amount	Reflected As
		(In thousands)	
AIOI Insurance Co., Ltd.	AA-1580015	$ (76)	Losses Incurred
AIOI Insurance Co., Ltd.	AA-1580015	(21)	Other
Alea (Bermuda) Ltd.	AA-3190800	12,572	Losses Incurred
Alea Europe Ltd.	AA-1460115	(77)	Losses Incurred
American Home Assurance Co.	13-5124990	(133)	Losses Incurred
American Home Assurance Co.	13-5124990	(14)	Other
Arch Reinsurance Co.	06-1430254	1,045	Losses Incurred
Arch Reinsurance Co.	06-1430254	(2)	Other
Australian World Underwriters	ZZ-0000054	(27)	Losses Incurred
Berkley Insurance Co.	47-0574325	(5,823)	Losses Incurred
Berkley Insurance Co.	47-0574325	(5)	Other
Carraig Insurance Ltd.	AA-1784113	183	Losses Incurred
Lloyd's Syndicate Numbers: 0033, 0051, 0179, 0406, 0672, 1003, 1028, 1095, 2003, 2020, 3030	Various	8,687	Losses Incurred
Excess & Casualty Reinsurance Assn.	AA-9995022	251	Losses Incurred
Excess & Casualty Reinsurance Assn.	AA-9995022	(116)	Other
Finial Reinsurance Co.	06-1325038	57,034	Losses Incurred
Finial Reinsurance Co.	06-1325038	(57,079)	Other
Hannover Rueckversicherungs AG	AA-1340125	(687)	Losses Incurred
Hannover Rueckversicherungs AG	AA-1340125	(8)	Other
Harvest Insurance Co.	AA-3770061	(620)	Losses Incurred
Harvest Insurance Co.	AA-3770061	(18)	Other
Lloyd Italico & L'Ancora	AA-1361006	6	Losses Incurred
Lloyd Italico & L'Ancora	AA-1361006	(28)	Other
Milestone Insurance Co.	AA-3190588	(2,501)	Losses Incurred
Munich Reinsurance America, Inc.	13-4924125	(49)	Losses Incurred
Munich Reinsurance America, Inc.	13-4924125	(15)	Other
National Union Fire Insurance Co. of Pittsburgh	25-0687550	(1,150)	Losses Incurred
National Union Fire Insurance Co. of Pittsburgh	25-0687550	(123)	Other
Neighborhood Insurance	55-0800043	425	Losses Incurred
Neighborhood Insurance	55-0800043	(425)	Other
SCOR Reinsurance Co.	75-1444207	(164)	Losses Incurred
SCOR Reinsurance Co.	75-1444207	(2)	Other
Swiss Reinsurance America Corp.	13-1675535	1,314	Losses Incurred
Swiss Reinsurance America Corp.	13-1675535	(9)	Other
TOA Reinsurance Co. of America	13-2918573	(480)	Losses Incurred
TOA Reinsurance Co. of America	13-2918573	(40)	Other
Reinsurer	FEIN Code	Amount	Reflected As
		(In thousands)	
Transatlantic Reinsurance Co.	13-5616275	(579)	Losses Incurred

NOTES TO FINANCIAL STATEMENTS

Transatlantic Reinsurance Co.	13-5616275	(51)	Other
Westport Insurance Corp.	48-0921045	533	Losses Incurred
Westport Insurance Corp.	48-0921045	(33)	Other
Total		$ 11,695	

In March 2010, the Company resolved a reinsurance dispute with Converium Reinsurance (North America) Inc., f/k/a Zurich Reinsurance (North America) Inc., and n/k/a Finial Reinsurance Company by commuting all reinsurance treaties between them. The treaties related to certain excess of loss reinsurance agreements encompassing primarily workers compensation losses and LAE. The Company had recorded in its 2009 year-end statutory financial statements a liability that reduced its surplus by approximately $57 million to reflect the expected result of the commutation. At March 31, 2010, the Company reversed the liability and reflected the actual result of the commutation as losses incurred of approximately $57 million.

F. Retroactive Reinsurance
None. (See Note 1.A.)

G. Reinsurance Accounted for as a Deposit
None.

H. Disclosure for the Transfer of Property & Casualty Run-Off Agreements
None.

24. RETROSPECTIVELY RATED CONTRACTS & CONTRACTS SUBJECT TO REDETERMINATION

A. Accrued retrospective premiums reported on Page 2, Assets, Line 15.3, 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, 2010
		(In thousands)
Accrued retrospective premium		$ 7,116
Less: Nonadmitted amount		146
Admitted amount		$ 6,970

NOTES TO FINANCIAL STATEMENTS

25. CHANGES IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	2010	2009
	(In thousands)	
Balance as of January 1, net of reinsurance recoverables of $890,864 in 2010 and $879,068 in 2009	$ 890,481	$ 1,040,399
Incurred related to:		
Prescribed accounting practices	(64,225)	0
Current accident year development	1,344	2,988
Prior accident years development	64,100	87,241
Total incurred	1,219	90,229
Paid related to:		
Current accident year	(381)	(649)
Prior accident years	(204,559)	(239,498)
Total paid	(204,940)	(240,147)
Balance as of December 31, net of reinsurance recoverables of $543,567 in 2010 and $890,864 in 2009	$ 686,760	$ 890,481

The incurred loss and LAE reserves related to current accident year is comprised of prescribed accounting practices of $(64.2) million and development of $1.3 million.

The current accident year prescribed accounting practices directed by the Department in 2010 (See Note 1.A.) is comprised of:

1. Nominal favorable loss and LAE reserve development of $86.9 million comprised primarily of (a) a $44.4 million decrease arising from a prescribed accounting practice to reduce direct loss and ALEA reserves, less amounts ceded to reinsurers, by 5%; and (b) a $36.5 million decrease arising from a prescribed accounting practice to record a two year estimate for assumed loss and ALEA reserves, less offsets available to reinsurers, and; (c) a $7.4 million decrease arising from a prescribed accounting practice to record a two year estimate for ULAE reserves; and

2. A reduction of discount of $24.0 million comprised primarily of (a) a $13.5 million decrease arising from a prescribed accounting practice to reduce direct loss and ALEA reserves, less amounts ceded to reinsurers, by 5%; and (b) a $10.3 million decrease arising from a prescribed accounting practice to record a two year estimate for assumed loss and ALEA reserves, less offsets available to reinsurers, and; (c) a $0.2 million decrease arising from a prescribed accounting practice to record a two year estimate for ULAE reserves.

The incurred loss and LAE reserves related to prior accident years increased by $64.1 million in 2010 and increased by $87.2 million in 2009.

The prior accident year development in 2010 is due to:

1. Nominal adverse loss and LAE reserve development of $26.3 million comprised of (a) a $15.9 million increase arising primarily from deterioration in workers' compensation, CMP, special property, surety and products liability, that was partially offset by favorable development in A&H, commercial auto liability, other liability, special liability, personal lines and reinsurance nonproportional and (b) a $3.1 million increase arising from buybacks, commutations, and novations; and (c) a $7.3 million increase which is attributable to a correction of an error (see Note 2); and

2. A reduction of discount of $37.8 million comprised of (a) a $36.0 million decrease for anticipated amortization of discount; (b) an $9.2 million decrease due to nominal reserve strengthening; and (c) a $5.2 million increase associated with buybacks, commutations, and novations; and (d) a $2.2 million increase which is attributable to a correction of an error (see Note 2).

The prior accident 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

NOTES TO FINANCIAL STATEMENTS

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.

26. INTERCOMPANY POOLING ARRANGEMENTS

The Company is the lead LMG company. The significant majority of the business written by members of LMG 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, 2010 and 2009, 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 $1.4 million in 2010, with the Company's and AMM's respective shares being $0.3 million and $1.1 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.

27. STRUCTURED SETTLEMENTS

A. In limited circumstances to settle certain insurance claim liabilities, the Company from time to time since the late 1970s purchased from various life insurance companies structured settlement annuities naming the settling claimants as payees. In many of those settlements, the Company 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, 2010, the Company's contingent liabilities for future unpaid annuity installments totaled $334.1 million. Reflecting intercompany reinsurance arrangements, $186.1 million of the Company's $334.1 million of contingent liability arises on settlements of claims on policies initially issued by AMM, AMICO, and LICT.

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	$ 71,357
Executive Life Insurance Company of New York [2]	New York, NY	37,032
Symetra Life Insurance Company	Seattle, WA	29,533
Western National Life Insurance Company	Houston, TX	22,165
Life Insurance Company of North America	Philadelphia, PA	21,875
Manufacturers Life Insurance Company	Toronto, Canada	21,707
Monumental Life Insurance Company	Cedar Rapids, IA	13,459
Fidelity Life Association, a Legal Reserve Life Insurance Company	Oak Brook, IL	12,881
Metropolitan Life Insurance Company	Tampa, FL	12,007
Aviva Life and Annuity Company	Des Moines, IA	8,896
Presidential Life Insurance Company	Nyack, NY	7,652
Midland National Life Insurance Company	Sioux Falls, SD	7,528
Prudential Insurance Company of America	Newark, NJ	7,344
Pacific Life Insurance Company	Newport Beach, CA	7,327
Protective Life Insurance Company	Birmingham, AL	5,066
Lincoln National Life Insurance Company	Ft. Wayne, IN	4,955
Transamerica Life Insurance Company	Cedar Rapids, IA	4,689
Allstate Life Insurance Company of New York	Hauppauge, NY	3,202
Sun Life Assurance Company of Canada	Toronto, Canada	3,148
Aurora National Life Assurance Company	East Hartford, CT	2,669
American General Life Insurance Company	Houston, TX	2,377
New York Life Insurance Company	New York, NY	2,273
Metropolitan Life Insurance Company of Connecticut	Hartford, CT	2,184
American General Life Insurance Company of Delaware	Houston, TX	1,687
Allstate Life Insurance Company	Northbrook, IL	1,673
Canada Life Assurance Company	Toronto, Canada	1,605
Monarch Life Insurance Company [3]	Holyoke, MA	1,513
SunAmerica Life Insurance Company	Los Angeles, CA	1,456
Transamerica Financial Life Insurance Company	Harrison, NY	1,435
American International Life Assurance Company of NY	New York, NY	1,370
Security Benefit Life Insurance Company	Topeka, KS	1,128
Great-West Life Assurance Company	Winnipeg, Canada	1,102
United of Omaha Life Insurance Company	Omaha, NE	1,081
The Ohio National Life Insurance Company	Cincinnati, OH	1,068
Standard Life Assurance Company	Montreal, Canada	866
AXA Equitable Life Insurance Company	New York, NY	846
Desjardins Financial Security Life Assurance Company	Levis, Canada	631
Stonebridge Life Insurance Company	Cedar Rapids, IA	612
Liberty Life Assurance Company of Boston	Boston, MA	593
Farmers New World Life Insurance Company	Mercer Island, WA	581
ING Life Insurance and Annuity Company	Atlanta, GA	569
Capitol Life Insurance Company [4]	Dallas, TX	522
Life Insurance Company [1]	**Location**	**Amount**
		(In thousands)
Genworth Life Insurance Company of New York	New York, NY	$ 506
Genworth Life Insurance Company	Richmond, VA	406
Washington National Insurance Company	Carmel, IN	350
All other		1,198
Total		$ 334,124

NOTES TO FINANCIAL STATEMENTS

(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, American International Life Assurance Company of New York, Standard 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, Desjardins Financial Security Life Assurance Company, and Genworth Life Insurance Company of New York.

(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 Capitol Life Insurance Company's ability to pay its obligations as they mature.

28. HEALTH CARE RECEIVABLES

None.

29. PARTICIPATING POLICIES

None.

30. PREMIUM DEFICIENCY RESERVES

As of December 31, 2010, the Company had liabilities of $0.6 million related to premium deficiency reserves compared to $0.7 million at December 31, 2009. The Company used an offset of $0.3 million for anticipated investment income based on an interest rate of 3.25% when calculating its premium deficiency reserves.

NOTES TO FINANCIAL STATEMENTS

31. HIGH DEDUCTIBLES

As of December 31, 2010, the amount of reserve credits recorded for high deductibles on unpaid workers' compensation claims was $240.8 million, and for non-workers' compensation claims it was $4.4 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 $6.8 million at December 31, 2010.

32. 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, 2010 is $279.0 million, of which $98.9 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	$ 93,706
Other (Including Credit, A&H)	5,150
Total Tabular Discount	98,856
Non-Tabular Discount	
Line of Business	
Homeowners/Farmowners	55
Private Passenger Auto Liability/Medical	597
Commercial Auto/Truck Liability/Medical	9,290
Workers' Compensation	150,226
Commercial Multi Peril	9,727
Medical Malpractice - occurrence	9
Medical Malpractice - claims-made	3
Special Liability	451
Other Liability - occurrence	17,537
Other Liability - claims-made	3,905
Special Property	3
Fidelity/Surety	473
Reinsurance Nonproportional Assumed Liability	2,888
Products Liability - occurrence	9,075
Subtotal Non-Tabular Discount	204,239
Prescribed Practice Discount	(24,136)
Total Non-Tabular Discount	180,103
Grand Total	$ 278,959

*Includes loss and LAE.

NOTES TO FINANCIAL STATEMENTS

33. 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	2006	2007	2008	2009	2010
Beginning reserves	$258,687,920	$ 50,745,520	$ 48,287,963	$ 37,272,724	$ 32,210,485
Incurred losses and LAE	(93,543,975)	8,171,540	1,483,834	1,929,966	4,877,264
Calendar year payments for					
Losses and LAE	(114,398,425)	(10,629,097)	(12,499,073)	(6,992,205)	(14,943,116)
Ending asbestos related Loss reserves	$ 50,745,520	$ 48,287,963	$ 37,272,724	$ 32,210,485	$ 22,144,633

Assumed Reinsurance	2006	2007	2008	2009	2010
Beginning reserves	$243,722,459	$234,969,103	$ 182,815,368	$137,087,779	$121,181,018
Incurred losses and LAE	108,658,211	(2,675,434)	(3,224,875)	12,799,378	2,874,472
Calendar year payments for					
Losses and LAE	(117,411,567)	(49,478,301)	(42,502,714)	(28,706,139)	(26,022,518)
Ending asbestos related Loss reserves	$234,969,103	$182,815,368	$ 137,087,779	$121,181,018	$ 98,032,972

Net of Reinsurance	2006	2007	2008	2009	2010
Beginning reserves	$227,875,416	$196,341,222	$ 163,721,514	$121,465,801	$106,874,774
Incurred losses and LAE	28,650,043	5,224,196	(10,166,032)	9,145,074	8,863,763
Calendar year payments for					
Losses and LAE	(60,184,237)	(37,843,904)	(32,089,681)	(23,736,101)	(27,017,839)
Ending asbestos related Loss reserves	$196,341,222	$163,721,514	$ 121,465,801	$106,874,774	$ 88,720,698

The total asbestos related loss reserves at December 31, 2010 include IBNR reserves in the amount of $5,402,287 direct, $41,216,632 assumed, and $31,151,592 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, 2010 also include LAE in the amount of $12,711,386 direct, $26,915,407 assumed, and $36,959,323 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	2006	2007	2008	2009	2010
Beginning reserves	$ 17,022,837	$ 10,696,560	$ 5,917,205	$ 7,414,481	$ 11,225,879
Incurred losses and LAE	5,299,250	(1,724,558)	3,901,109	7,606,903	352,415
Calendar year payments for					
Losses and LAE	(11,625,527)	(3,054,797)	(2,403,833)	(3,795,505)	(5,202,009)
Ending environmental related Loss Reserves	$ 10,696,560	$ 5,917,205	$ 7,414,481	$ 11,225,879	$ 6,376,285
Assumed Reinsurance	**2006**	**2007**	**2008**	**2009**	**2010**
Beginning reserves	$ 77,424,436	$ 66,025,514	$ 37,919,893	$ 23,966,682	$ 16,364,211
Incurred losses and LAE	81,301	(7,552,263)	(12,087,524)	(2,823,542)	(685,556)
Calendar year payments for					
Losses and LAE	(11,480,223)	(20,553,358)	(1,865,687)	(4,778,929)	(3,799,405)
Ending environmental related Loss Reserves	$ 66,025,514	$ 37,919,893	$ 23,966,682	$ 16,364,211	$ 11,879,250
Net of Reinsurance	**2006**	**2007**	**2008**	**2009**	**2010**
Beginning reserves	$ 74,371,455	$ 63,373,890	$ 38,567,291	$ 26,969,125	$ 23,938,186
Incurred losses and LAE	10,720,933	(9,596,825)	(10,072,456)	5,118,458	(3,537,876)
Calendar year payments for					
Losses and LAE	(21,718,498)	(15,209,774)	(1,525,710)	(8,149,397)	(5,461,207)
Ending environmental related Loss Reserves	$ 63,373,890	$ 38,567,291	$ 26,969,125	$ 23,938,186	$ 14,939,103

The total environmental related loss reserves at December 31, 2010 include IBNR reserves in the amount of $1,533,792 direct, $4,680,799 assumed, and $3,209,665 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, 2010 also include LAE in the amount of $2,341,216 direct, $5,270,514 assumed, and $7,010,041 net of reinsurance.

34. **SUBSCRIBER SAVINGS ACCOUNT**
None.

35. **MULTIPLE PERIL CROP INSURANCE**
None.

36. **FINANCIAL GUARANTY 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. 12/31/2010

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 [X] No [ ]

6.2 If yes, give full information Information is provided in Financial Note 14E.

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

10.1 Has the insurer been granted any exemptions to the prohibited non-audit services provided by the certified independent public accountant requirements as allowed in Section 7H of the Annual Financial Reporting Model Regulation (Model Audit Rule), or substantially similar state law or regulation? .... Yes [ ] No [X]

10.2 If the response to 10.1 is yes, provide information related to this exemption:

10.3 Has the insurer been granted any exemptions to the audit committee requirements as allowed in Section 14H of the Annual Financial Reporting Model Regulation, or substantially similar state law or regulation? .... Yes [ ] No [X]

10.4 If the response to 10.3 is yes, provide information related to this exemption:

10.5 Has the insurer been granted any exemptions related to the other requirements of the Annual Financial Reporting Model Regulation as allowed for in Section 17A of the Model Regulation, or substantially similar state law or regulation? .... Yes [ ] No [X]

10.6 If the response to 10.5 is yes, provide information related to this exemption:

10.7 Has the reporting entity established an Audit Committee in compliance with the domiciliary state insurance laws? .... Yes [X] No [ ] NA [ ]

10.8 If the response to 10.7 is no or n/a, please explain

11. 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

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

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

12.12 Number of parcels involved 2

12.13 Total book/adjusted carrying value .... $ 15,168,766

12.2 If yes, provide explanation

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

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

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

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

13.4 If answer to (13.3) is yes, has the domiciliary or entry state approved the changes? .... Yes [ ] No [ ] NA [ ]

14.1 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.

14.11 If the response to 14.1 is no, please explain:

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

14.21 If the response to 14.2 is yes, provide information related to amendment(s).

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

14.31 If the response to 14.3 is yes, provide the nature of any waiver(s).

BOARD OF DIRECTORS

15. 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 [ ]

16. 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 [ ]

17. 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

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

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

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

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

20.2 If yes, state the amount thereof at December 31 of the current year:
- 20.21 Rented from others $
- 20.22 Borrowed from others $
- 20.23 Leased from others $
- 20.24 Other $

21.1 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]

21.2 If answer is yes:
- 21.21 Amount paid as losses or risk adjustment $
- 21.22 Amount paid as expenses $
- 21.23 Other amounts paid $

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

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

INVESTMENT

23.1 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 23.3) Yes [X] No [ ]

23.2 If no, give full and complete information, relating thereto

23.3 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 17 where this information is also provided)

Not Applicable

23.4 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 [X]

23.5 If answer to 23.4 is yes, report amount of collateral for conforming programs. $

23.6 If answer to 23.4 is no, report amount of collateral for other programs. $

23.7 Does the company's security lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? Yes [ ] No [ ] NA [X]

23.8 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes [ ] No [ ] NA [X]

23.9 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending? Yes [ ] No [ ] NA [X]

24.1 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 20.1 and 23.3) Yes [X] No [ ]

24.2 If yes, state the amount thereof at December 31 of the current year:
- 24.21 Subject to repurchase agreements $
- 24.22 Subject to reverse repurchase agreements $
- 24.23 Subject to dollar repurchase agreements $
- 24.24 Subject to reverse dollar repurchase agreements $
- 24.25 Pledged as collateral $ 175,930,773
- 24.26 Placed under option agreements $
- 24.27 Letter stock or securities restricted as to sale $
- 24.28 On deposit with state or other regulatory body $ 243,688,186
- 24.29 Other $

24.3 For category (24.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

25.2 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.

26.1 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]

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

GENERAL INTERROGATORIES

27. 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 1, III – General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping agreements of the NAIC *Financial Condition Examiners Handbook*? Yes [X] No [ ]

27.01 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

27.02 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)

27.03 Have there been any changes, including name changes, in the custodian(s) identified in 27.01 during the current year? Yes [ ] No [X]

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

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

27.05 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., 35 Floor, Chicago, IL 60602

28.1 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]

28.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
28.2999 TOTAL		0

28.3 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

29. 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 (+)
29.1 Bonds	667,830,107	664,832,078	(2,998,029)
29.2 Preferred Stocks	0		0
29.3 Totals	667,830,107	664,832,078	(2,998,029)

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

See Footnote 20

30.1 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 [ ]

30.2 If the answer to 30.1 is 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]

30.3 If the answer to 30.2 is 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 three bonds priced by a broker.

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

31.2 If no, list exceptions:

OTHER

32.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? $ 1,015

32.2 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

33.1 Amount of payments for legal expenses, if any? $ 4,492,902

33.2 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
Sidley Austin LLP	1,480,419

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

34.2 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. $ 0

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	$ 1,174,429	$ 5,176,802
2.3	Premium Ratio (2.1/2.2)	0.000	0.000
2.4	Reserve Numerator	$ 25,270,503	$ 33,818,932
2.5	Reserve Denominator	$ 700,038,751	$ 915,919,417
2.6	Reserve Ratio (2.4/2.5)	0.036	0.037

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 2010 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 2010 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, Long Grove Insurance Company Limited.

12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 15.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- 12.11 Unpaid losses $ 6,134,754
- 12.12 Unpaid underwriting expenses (including loss adjustment expenses) $ 981,560

12.2 Of the amount on Line 15.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? $ 5,512,731

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 $ 180,357,286
- 12.62 Collateral and other funds $ 40,817,656

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 the 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	$	$	$	$	$
16.12 Products	$	$	$	$	$
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 2010	2 2009	3 2008	4 2007	5 2006
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)	1,948,332	2,877,270	(1,068,106)	793,950	(5,002,743)
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	19,340	16,921	114,977	(253,533)	(2,008,961)
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	(17,676,970)	(334,618)	192,185	(723,878)	(4,637,743)
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	276,231	1,449,044	2,477,670	2,923,905	11,623,275
5. Nonproportional reinsurance lines (Lines 31, 32 & 33)	290,221	475,110	866,564	117,587	5,115,067
6. Total (Line 35)	(15,142,846)	4,483,727	2,583,290	2,858,031	5,088,895
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)	(121,204)	2,187,780	(885,261)	6,374,690	5,346,070
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	(24,263)	51,665	1,182	293,488	104,930
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	10,226	1,498,203	591,268	(193,320)	259,419
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	231,869	344,217	6,385,876	3,198,013	3,895,945
11. Nonproportional reinsurance lines (Lines 31, 32 & 33)	0	0	12,531	346	54,643
12. Total (Line 35)	96,628	4,081,865	6,105,596	9,673,217	9,661,007
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	(39,828,726)	(169,526,121)	(153,907,140)	(139,170,703)	(212,151,242)
14. Net investment gain (loss) (Line 11)	31,213,076	47,929,992	59,475,722	64,760,335	80,620,898
15. Total other income (Line 15)	14,891,788	12,537,755	(983,790)	8,573,488	3,624,729
16. Dividends to policyholders (Line 17)	(1,290,894)	1,964,927	(5,727,457)	5,082,057	6,910,195
17. Federal and foreign income taxes incurred (Line 19)	(475,145)	(600,462)	(10,003,154)	(3,032,855)	(28,425,559)
18. Net income (Line 20)	8,042,177	(110,422,839)	(79,684,597)	(67,886,082)	(106,390,251)
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 26, Col. 3)	900,555,180	1,124,027,285	1,407,872,250	1,684,247,514	2,136,458,926
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 15.1)	(3,050,071)	(707,981)	3,923,601	7,243,968	27,374,791
20.2 Deferred and not yet due (Line 15.2)	4,647,902	8,665,035	11,054,085	21,907,984	29,607,577
20.3 Accrued retrospective premiums (Line 15.3)	6,970,533	9,741,523	17,251,970	16,881,174	34,138,540
21. Total liabilities excluding protected cell business (Page 3, Line 26)	865,690,529	1,115,904,007	1,294,700,035	1,533,583,128	1,962,866,314
22. Losses (Page 3, Line 1)	507,745,337	677,228,257	819,591,888	908,734,516	1,087,138,476
23. Loss adjustment expenses (Page 3, Line 3)	179,014,511	213,253,103	220,807,031	328,662,125	488,494,066
24. Unearned premiums (Page 3, Line 9)	1,491,220	2,569,021	3,663,958	5,405,172	9,463,192
25. Capital paid up (Page 3, Lines 30 & 31)	0	0	0	0	0
26. Surplus as regards policyholders (Page 3, Line 37)	34,864,651	8,123,278	113,172,215	150,664,386	173,592,612
Cash Flow (Page 5)					
27. Net cash from operations (Line 11)	(174,102,266)	(252,867,520)	(218,098,398)	(295,823,118)	(347,667,425)
Risk-Based Capital Analysis					
28. Total adjusted capital	34,864,651	8,123,278	113,172,215	150,664,386	173,592,612
29. Authorized control level risk-based capital	83,650,395	124,770,172	133,789,460	165,333,453	209,285,653
Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3)(Item divided by Page 2, Line 12, Col. 3) x 100.0					
30. Bonds (Line 1)	83.9	86.5	86.3	83.6	84.7
31. Stocks (Lines 2.1 & 2.2)	8.2	6.5	5.9	4.6	5.3
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	0.0	0.3
34. Cash, cash equivalents and short-term investments (Line 5)	6.1	6.4	7.3	11.4	8.0
35. Contract loans (Line 6)	0.0	0.0	0.0	0.0	0.0
36. Derivatives (Line 7)	0.0	XXX	XXX	XXX	XXX
37. Other invested assets (Line 8)	1.8	0.6	0.5	0.5	1.8
38. Receivables for securities (Line 9)	0.1	0.0	0.0	0.0	0.0
39. Securities lending reinvested collateral assets (Line 10)	0.0	XXX	XXX	XXX	XXX
40. Aggregate write-ins for invested assets (Line 11)	0.0	0.0	0.0	0.0	0.0
41. Cash, cash equivalents and invested assets (Line 12)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
42. Affiliated bonds, (Sch. D, Summary, Line 12, Col. 1)	0	0	0	0	0
43. Affiliated preferred stocks (Sch. D, Summary, Line 18, Col. 1)	0	0	0	0	0
44. Affiliated common stocks (Sch. D, Summary, Line 24, Col. 1)	60,439,779	59,602,259	68,938,419	59,677,331	85,535,429
45. Affiliated short-term investments (subtotals included in Schedule DA Verification, Col. 5, Line 10)	0	0	0	0	0
46. Affiliated mortgage loans on real estate		0	0	0	0
47. All other affiliated		5,315,221	5,315,221	5,315,221	27,666,041
48. Total of above Lines 42 to 47	60,439,779	64,917,480	74,253,640	64,992,552	113,201,470
49. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 48 above divided by Page 3, Col. 1, Line 37 x 100.0)	173.4	799.2	65.6	43.1	65.2

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2010	2 2009	3 2008	4 2007	5 2006
Capital and Surplus Accounts (Page 4)					
50. Net unrealized capital gains (losses) (Line 24)	9,318,654	(5,650,732)	11,586,654	(3,031,350)	1,986,345
51. Dividends to stockholders (Line 35)	0	0	0	0	0
52. Change in surplus as regards policyholders for the year (Line 38)	26,741,373	(105,048,937)	(37,492,171)	(22,928,226)	5,279,461
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
53. 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)	283,196,871	286,483,185	442,878,845	502,026,889	865,340,195
54. Property lines (Lines 1, 2, 9, 12, 21 & 26)	67,828	(77,925)	224,008	1,584,749	48,150
55. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	9,638,827	10,388,581	18,277,275	41,462,817	86,115,610
56. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	12,400,587	11,930,878	6,803,013	686,154	16,663,245
57. Nonproportional reinsurance lines (Lines 31, 32 & 33)	35,216,248	14,944,262	18,318,129	40,341,048	46,352,848
58. Total (Line 35)	340,520,361	323,668,981	486,501,270	586,101,657	1,014,520,048
Net Losses Paid (Page 9, Part 2, Col. 4)					
59. 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)	126,070,197	147,649,212	205,751,121	247,702,430	323,624,151
60. Property lines (Lines 1, 2, 9, 12, 21 & 26)	(111,755)	(54,881)	(230,279)	260,505	133,341
61. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	4,127,421	5,359,567	17,365,340	32,800,011	46,988,840
62. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	11,677,093	9,773,346	(30,091,462)	5,633,100	25,787,433
63. Nonproportional reinsurance lines (Lines 31, 32 & 33)	12,052,691	12,336,215	12,019,298	28,989,956	25,395,780
64. Total (Line 35)	153,815,647	175,063,459	204,814,018	315,386,002	421,929,545
Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
65. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
66. Losses incurred (Line 2)	(1,334.0)	631.7	1,474.1	997.6	481.6
67. Loss expenses incurred (Line 3)	1,437.8	1,111.3	(174.7)	(306.1)	258.3
68. Other underwriting expenses incurred (Line 4)	3,399.3	1,656.5	787.5	422.1	470.7
69. Net underwriting gain (loss) (Line 8)	(3,391.3)	(3,274.7)	(1,961.4)	(1,013.5)	(1,102.4)
Other Percentages					
70. 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)	25,761.2	1,762.3	995.4	510.5	883.7
71. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	103.8	1,742.9	1,299.4	691.5	739.9
72. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 35 divided by Page 3, Line 37, Col. 1 x 100.0)	0.3	50.2	5.4	6.4	5.6
One Year Loss Development (000 omitted)					
73. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)	20,395	43,429	23,037	(11,693)	32,769
74. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 73 above divided by Page 4, Line 21, Col. 1 x 100.0)	251.1	38.4	15.3	(6.7)	19.5
Two Year Loss Development (000 omitted)					
75. 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)	64,694	67,052	11,396	16,611	(7,234)
76. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 75 above divided by Page 4, Line 21, Col. 2 x 100.0)	57.2	44.5	6.6	9.9	(4.2)

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			Loss and Loss Expense Payments								12
	1	2	3	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	Number of Claims Reported - Direct and Assumed
				4	5	6	7	8	9	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
	Direct and Assumed	Ceded	Net (Cols. 1 - 2)	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded			
1. Prior	XXX	XXX	XXX	246,247	136,322	33,660	6,929	6,178	398	2,845	142,436	XXX
2. 2001	4,776,690	2,304,460	2,472,230	3,055,467	1,424,616	363,718	92,406	324,153	58,478	189,905	2,167,838	XXX
3. 2002	4,528,662	2,631,131	1,897,531	1,916,836	812,945	256,220	84,841	240,446	100,177	84,181	1,415,539	XXX
4. 2003	2,597,722	2,164,948	432,774	827,959	591,438	106,957	41,244	76,383	18,529	46,809	360,088	XXX
5. 2004	262,845	203,034	59,811	145,041	74,104	16,788	4,932	23,086	3,233	3,916	102,646	XXX
6. 2005	63,843	42,544	21,299	28,063	11,796	3,554	993	13,052	1,467	1,041	30,413	XXX
7. 2006	24,866	5,621	19,245	7,315	458	1,443	492	84	26	769	7,867	XXX
8. 2007	9,230	(4,501)	13,731	1,974	11	825	477	75	15	53	2,371	XXX
9. 2008	5,117	(2,729)	7,846	1,410	51	988	11	68	25	790	2,379	XXX
10. 2009	6,180	1,002	5,178	899	0	317	3	3	0	0	1,216	XXX
11. 2010	(13,837)	(15,013)	1,176	354	0	23	1	5	0	0	381	XXX
12. Totals	XXX	XXX	XXX	6,231,565	3,051,741	784,493	232,329	683,533	182,348	330,309	4,233,173	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21	22	Salvage and Subrog-ation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstand-ing - Direct and Assumed
	13	14	15	16	17	18	19	20					
	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded			
1.	786,309	185,138	68,074	72,113	54,388	6,042	102,847	26,578	19,169	1,705	2,329	739,212	XXX
2.	115,321	44,018	47,683	45,155	5,671	2,163	24,642	17,274	4,758	451	3,852	89,015	XXX
3.	89,004	45,135	53,807	49,206	5,366	2,181	25,358	16,839	5,622	642	1,174	65,154	XXX
4.	55,060	22,197	27,992	22,763	2,562	942	12,174	6,207	2,761	465	2,796	47,975	XXX
5.	5,302	1,576	1,844	952	376	252	1,033	340	330	150	63	5,614	XXX
6.	220	60	551	124	170	4	245	59	35	15	30	959	XXX
7.	390	142	757	155	46	21	229	44	18	1	92	1,077	XXX
8.	3,121	570	626	164	528	102	259	55	90	2	16	3,731	XXX
9.	49	0	638	141	13	0	(110)	23	9	1	410	434	XXX
10.	527	138	525	123	34	28	216	57	39	2	90	994	XXX
11.	17	0	(108,622)	(28,293)	18	0	398	79	(8,062)	(733)	75	(87,304)	XXX
12. Totals	1,055,320	298,974	93,875	162,603	69,172	11,735	167,291	67,555	24,770	2,700	10,927	866,861	XXX

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34	Net Balance Sheet Reserves After Discount	
	26	27	28	29	30	31	32	33	Inter-Company Pooling Participation Percentage	35	36
	Direct and Assumed	Ceded	Net	Direct and Assumed	Ceded	Net	Loss	Loss Expense		Losses Unpaid	Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	166,266	300	XXX	430,866	141,780
2.	3,941,413	1,684,560	2,256,853	82.5	73.1	91.3	17,318	52		56,513	15,132
3.	2,592,659	1,111,966	1,480,693	57.3	42.3	78.0	10,930	73		37,540	16,611
4.	1,111,848	703,785	408,063	42.8	32.5	94.3	8,006	19		30,086	9,864
5.	193,800	85,540	108,260	73.7	42.1	181.0	588	2		4,030	994
6.	45,889	14,518	31,372	71.9	34.1	147.3	88	0		499	372
7.	10,283	1,339	8,944	41.4	23.8	46.5	82	0		768	227
8.	7,497	1,396	6,102	81.2	(31.0)	44.4	297	0		2,716	718
9.	3,065	252	2,813	59.9	(9.2)	35.9	45	0		501	(112)
10.	2,560	351	2,210	41.4	35.0	42.7	75	2		716	201
11.	(115,869)	(28,946)	(86,923)	837.4	192.8	(7,391.4)	(23,824)	(218)		(56,488)	(6,774)
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	179,871	230	XXX	507,747	179,013

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 2001	2 2002	3 2003	4 2004	5 2005	6 2006	7 2007	8 2008	9 2009	10 2010	11 One Year	12 Two Year
1. Prior	3,451,455	4,074,267	4,162,459	4,119,221	4,051,584	4,131,193	4,128,537	4,114,324	4,130,152	4,160,386	30,234	46,062
2. 2001	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	1,992,756	16,932	20,686
3. 2002	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	1,339,836	(18,868)	(3,637)
4. 2003	XXX	XXX	470,626	365,688	416,310	369,719	368,367	342,246	356,206	349,830	(6,376)	7,584
5. 2004	XXX	XXX	XXX	86,184	98,926	94,115	78,965	87,808	88,068	88,374	306	566
6. 2005	XXX	XXX	XXX	XXX	30,399	52,603	23,325	23,700	21,387	19,767	(1,620)	(3,933)
7. 2006	XXX	XXX	XXX	XXX	XXX	11,276	15,741	11,501	9,823	8,868	(955)	(2,633)
8. 2007	XXX	XXX	XXX	XXX	XXX	XXX	4,461	4,409	3,382	5,954	2,572	1,545
9. 2008	XXX	XXX	XXX	XXX	XXX	XXX	XXX	4,308	3,722	2,762	(960)	(1,546)
10. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,039	2,169	(870)	XXX
11. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(79,599)	XXX	XXX
										12. Totals	20,395	64,694

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 2001	2 2002	3 2003	4 2004	5 2005	6 2006	7 2007	8 2008	9 2009	10 2010	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
1. Prior	000	824,636	1,287,188	1,864,365	2,302,515	2,627,956	2,862,456	3,060,471	3,215,468	3,352,124	XXX	XXX
2. 2001	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	1,902,163	XXX	XXX
3. 2002	XXX	459,740	553,991	781,826	950,162	1,091,115	1,165,877	1,227,873	1,251,754	1,275,270	XXX	XXX
4. 2003	XXX	XXX	(103,954)	66,876	199,618	251,705	294,877	276,234	289,644	302,234	XXX	XXX
5. 2004	XXX	XXX	XXX	33,452	47,607	56,189	60,271	74,357	77,973	82,793	XXX	XXX
6. 2005	XXX	XXX	XXX	XXX	14,594	17,354	18,162	18,739	18,729	18,828	XXX	XXX
7. 2006	XXX	XXX	XXX	XXX	XXX	7,161	8,781	8,496	7,412	7,808	XXX	XXX
8. 2007	XXX	XXX	XXX	XXX	XXX	XXX	1,013	1,178	1,701	2,311	XXX	XXX
9. 2008	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,355	1,524	2,336	XXX	XXX
10. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	646	1,213	XXX	XXX
11. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	376	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 2001	2 2002	3 2003	4 2004	5 2005	6 2006	7 2007	8 2008	9 2009	10 2010
1. Prior	988,299	1,030,889	634,128	543,315	303,048	320,035	223,352	168,300	134,284	158,745
2. 2001	614,611	409,730	294,420	219,232	116,994	66,187	41,044	37,514	19,031	15,782
3. 2002	XXX	482,914	292,680	142,392	120,914	55,856	34,603	30,126	36,346	17,512
4. 2003	XXX	XXX	406,590	140,924	99,582	35,614	20,493	17,524	29,308	13,113
5. 2004	XXX	XXX	XXX	28,464	32,956	21,972	4,236	3,351	3,294	1,731
6. 2005	XXX	XXX	XXX	XXX	13,132	31,513	3,621	3,779	2,104	613
7. 2006	XXX	XXX	XXX	XXX	XXX	3,358	6,204	1,179	1,056	787
8. 2007	XXX	XXX	XXX	XXX	XXX	XXX	2,664	2,542	596	666
9. 2008	XXX	XXX	XXX	XXX	XXX	XXX	XXX	2,256	814	364
10. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,732	561
11. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(80,010)

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	925	1,316	(16,951)	1,118,118	(1,071,525)	4,185,096	0	
2. Alaska AK	L	18	18	(4,396)	232,566	41,814	874,053	0	
3. Arizona AZ	L	(23,289)	(23,289)	(30,830)	666,706	(247,028)	8,054,575	0	
4. Arkansas AR	L	3	14	(5,924)	112,507	42,426	952,568	0	
5. California CA	L	84,528	110,650	(256,794)	17,147,318	16,382,681	91,033,749	0	
6. Colorado CO	L	3,383	3,383	(24,103)	559,702	(506,984)	1,096,135	0	
7. Connecticut CT	L	1,665	10,732	(143,089)	1,285,551	1,272,511	4,176,566	0	
8. Delaware DE	L	575	575	(38,589)	638,488	90,958	3,371,213	0	
9. Dist. of Columbia DC	L	(6)	(6)	(953)	454,864	(63,477)	1,004,050	0	
10. Florida FL	N	5,367	6,700	(97,708)	3,042,878	(109,062)	8,359,582	0	
11. Georgia GA	L	14,892	19,329	(50,255)	5,165,483	(8,464,113)	3,584,074	0	
12. Hawaii HI	L	22,295	33,399	(3,200)	548,365	(613,857)	1,189,308	0	
13. Idaho ID	L	366	366	(8,170)	(13,318)	(14,309)	(96)	0	
14. Illinois IL	L	(7,693)	(7,675)	(332,994)	8,742,889	(3,629,663)	17,621,285	0	
15. Indiana IN	L	2,674	2,674	(25,804)	2,348,882	624,758	2,932,185	0	
16. Iowa IA	L	(656)	(656)	(14,912)	163,611	241,486	1,706,932	0	
17. Kansas KS	L	3,067	3,067	(10,168)	54,074	221,999	428,849	0	
18. Kentucky KY	L	3	3	(18,687)	2,488,528	(1,612,814)	10,232,191	0	
19. Louisiana LA	L	(20,524)	(20,524)	(17,204)	353,857	(38,425)	2,198,917	0	
20. Maine ME	L	254	254	(1,160)	16,757	(24,397)	75,649	0	
21. Maryland MD	L	(3,069)	(3,012)	(20,059)	628,825	1,633,046	5,743,374	0	
22. Massachusetts MA	L	14,516	14,248	(71,348)	736,213	(1,020,037)	7,016,633	0	
23. Michigan MI	L	11,715	11,715	(72,814)	4,110,938	4,815,065	11,576,899	0	
24. Minnesota MN	L	(17,411)	(17,411)	(76,905)	9,097,219	7,812,394	3,842,182	0	
25. Mississippi MS	L	5,580	5,580	(7,579)	139,897	(94,941)	362,216	0	
26. Missouri MO	L	1,900	2,267	(11,912)	786,087	(132,117)	2,130,178	0	
27. Montana MT	L	521	521	(19,536)	90,119	(28,237)	533,488	0	
28. Nebraska NE	L	1,500	1,500	(5,761)	68,324	(101,871)	1,841,114	0	
29. Nevada NV	L	(22,757)	(22,757)	(1,078)	377,063	571,291	1,193,980	0	
30. New Hampshire NH	L	3,288	4,012	(10,454)	163,088	(81,368)	1,322,832	0	
31. New Jersey NJ	L	19,788	43,073	(82,034)	26,825,006	(4,155,913)	28,013,011	0	
32. New Mexico NM	L	562	562	(3,675)	161,918	(11,449)	547,763	0	
33. New York NY	L	159,229	165,025	(398,993)	11,671,898	(8,745,044)	62,876,143	0	
34. No. Carolina NC	L	(7,802)	(7,802)	(19,477)	2,702,734	(2,683,055)	4,769,072	0	
35. No. Dakota ND	L	5	5	(210)	0	(241)	(186)	0	
36. Ohio OH	L	(553)	(553)	(15,363)	3,466,632	349,000	4,312,557	0	
37. Oklahoma OK	L	0	0	(11,005)	73,041	(364,013)	684,449	0	
38. Oregon OR	L	9,475	9,475	(47,941)	528,405	649,404	3,548,050	0	
39. Pennsylvania PA	L	497	694	(121,964)	13,642,432	4,157,387	7,311,601	0	
40. Rhode Island RI	L	(2,363)	(2,426)	(2,666)	1,489,561	(2,886,756)	1,686,607	0	
41. So. Carolina SC	L	19,288	19,576	(23,762)	1,411,945	(1,803,081)	7,135,535	0	
42. So. Dakota SD	L	376	376	(4,844)	13,552	(5,539)	104,030	0	
43. Tennessee TN	L	2,725	3,024	(64,567)	1,556,339	(2,211,188)	4,693,855	0	
44. Texas TX	L	1,491	289	(183,673)	15,990,760	(6,224,007)	39,768,240	0	
45. Utah UT	L	2,070	2,070	(8,901)	141,448	(168,045)	32,432	0	
46. Vermont VT	L	3,357	3,357	(7,444)	285,174	198,019	905,946	0	
47. Virginia VA	L	107	106	(17,012)	1,368,185	(82,447)	3,975,747	0	
48. Washington WA	L	493	493	(1,338)	1,282,728	501,277	1,114,878	0	
49. West Virginia WV	L	112	112	(1,686)	14,403	(17,016)	118,090	0	
50. Wisconsin WI	L	(261,518)	(262,152)	(110,056)	1,475,261	521,831	1,130,821	0	
51. Wyoming WY	L	254	254	(6,044)	18,987	5,211	140,143	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	(13,627)	62,128	231,434	499,803	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	(282)	(282)	(4,095)	(50,000)	(114,125)	(9,106)	0	
58. Aggregate other alien OT	XXX	3,359	3,359	0	5,580,253	(49,223,961)	(51,541,322)	0	0
59. Totals	(a) 50	34,300	115,628	(2,549,714)	151,038,389	(56,186,113)	320,457,936	0	0
DETAILS OF WRITE-INS									
5801. Asia	XXX	0	0	0	0	(1,654)	(2)	0	0
5802. Australia	XXX	0	0	0	0	(114)	0	0	0
5803. Europe	XXX	0	0	0	5,580,253	2,515,349	194,359	0	0
5898. Sum. of remaining write-ins for Line 58 from overflow page	XXX	3,359	3,359	0	0	(51,737,542)	(51,735,679)	0	0
5899. Totals (Lines 5801 through 5803 + 5898) (Line 58 above)	XXX	3,359	3,359	0	5,580,253	(49,223,961)	(51,541,322)	0	0

(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) Registered - Non-domiciled RRGs; (Q) Qualified - Qualified or Accredited Reinsurer; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) None of the above - Not allowed to write business in the state.

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

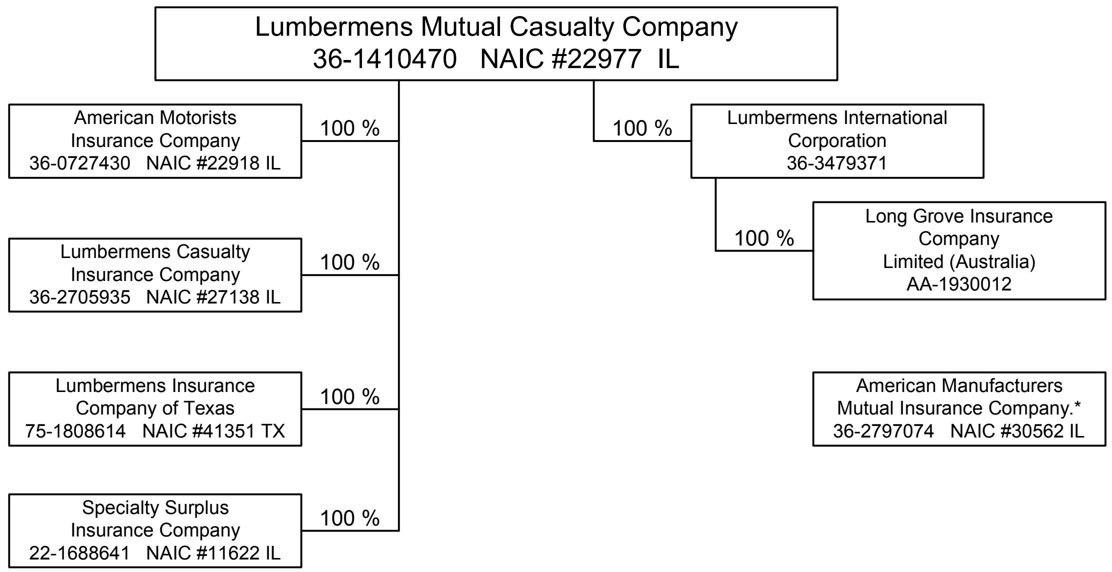
Premiums are allocated on the basis of the location of the risk, the insured or the insured's operations.

(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

Lumbermens
MUTUAL GROUP



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

Percentages show common stock ownership as of 12/31/2010.

ALPHABETICAL INDEX

ANNUAL STATEMENT BLANK

ALPHABETICAL INDEX

ANNUAL STATEMENT BLANK (Continued)

ALPHABETICAL INDEX

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ALPHABETICAL INDEX

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