2 2 9 7 7 2 0 0 4 2 0 1 0 0 1 0 0

PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2004

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 of America

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

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

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

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

Primary Location of Books and Records 1 Kemper Drive (Street and Number) Long Grove, IL 60049-0001 (City or Town, State and Zip Code) 847-320-3247 (Area Code) (Telephone Number)

Internet Website Address www.kemperinsurance.com

Statutory Statement Contact John Foster Snyder (Name) 847-320-3247 (Area Code) (Telephone Number) (Extension)

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

Policyowner Relations Contact Customer Relations, 1 Kemper Dr, ML-11SE (Street and Number) Long Grove, IL 60049-0001 (City or Town, State and Zip Code) 800-833-0355 (Area Code) (Telephone Number) (Extension)

OFFICERS

Name	Title	Name	Title
Douglas Sean Andrews #	CEO and President	John Keating Conway	Secretary
Dennis Andrew Wong #	Treasurer		

OTHER OFFICERS

Frederick Otto Kist	Senior Vice President	Benjamin David Schwartz #	Senior Vice President
John Foster Snyder #	Senior Vice President		

DIRECTORS OR TRUSTEES

John Thomas Chain Jr.	Jerome Reed Coleman	James Robert Edgar	Peter Bannerman Hamilton
Roberta Segal Karmel	George Ralph Lewis	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	John Foster Snyder
CEO and President	Secretary	Senior Vice President

Subscribed and sworn to before me this 15th day of February, 2005

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	Current Year 2 Nonadmitted Assets	Current Year 3 Net Admitted Assets (Cols. 1 - 2)	Prior Year 4 Net Admitted Assets
1. Bonds (Schedule D)	1,584,466,780		1,584,466,780	1,673,351,862
2. Stocks (Schedule D):				
2.1 Preferred stocks	68,030		68,030	13,388,287
2.2 Common stocks	108,301,446		108,301,446	268,718,684
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens	1,810,907		1,810,907	16,891,939
3.2 Other than first liens	24,560		24,560	255,711
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)	34,965,386		34,965,386	40,855,789
5. Cash ($ 241,601,549 , Schedule E, Part 1), cash equivalents ($ 1,046,163 , Schedule E, Part 2) and short-term investments ($ 695,334,084 , Schedule DA)	937,981,796		937,981,796	1,870,573,731
6. Contract loans, (including $ .... premium notes)			0	0
7. Other invested assets (Schedule BA)	51,461,344	1,304	51,460,040	104,331,557
8. Receivable for securities	2,405,798		2,405,798	3,287,363
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	2,721,486,047	1,304	2,721,484,743	3,991,654,923
11. Investment income due and accrued	15,581,714		15,581,714	14,827,958
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in the course of collection	187,631,676	78,074,458	109,557,218	164,086,680
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ .... earned but unbilled premium)	120,628,614	30,261,172	90,367,442	145,990,451
12.3 Accrued retrospective premium	112,646,968	4,809,459	107,837,509	157,532,537
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers	371,196,164		371,196,164	347,048,068
13.2 Funds held by or deposited with reinsured companies	16,561,259		16,561,259	19,418,156
13.3 Other amounts receivable under reinsurance contracts			0	0
14. Amounts receivable relating to uninsured plans			0	0
15.1 Current federal and foreign income tax recoverable and interest thereon			0	0
15.2 Net deferred tax asset	692,434,369	692,434,369	0	0
16. Guaranty funds receivable or on deposit	30,510		30,510	529,146
17. Electronic data processing equipment and software	2,174,949		2,174,949	2,643,386
18. Furniture and equipment, including health care delivery assets ($ ....)			0	0
19. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
20. Receivables from parent, subsidiaries and affiliates	59,672,555		59,672,555	20,562,031
21. Health care ($ ....) and other amounts receivable			0	0
22. Other assets nonadmitted	0		0	0
23. Aggregate write-ins for other than invested assets	317,496,226	35,519,782	281,976,444	365,648,301
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	4,617,541,051	841,100,544	3,776,440,507	5,229,941,637
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
26. Total (Lines 24 and 25)	4,617,541,051	841,100,544	3,776,440,507	5,229,941,637
DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above)	0	0	0	0
2301. Reinsurance accounted for as a deposit	43,011,255		43,011,255	55,190,454
2302. Advance to claims service provider	21,273,837		21,273,837	34,542,835
2303. Insurance recoveries related to UBIC	11,675,000	11,675,000	0	12,400,000
2398. Summary of remaining write-ins for Line 23 from overflow page	241,536,134	23,844,782	217,691,352	263,515,012
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	317,496,226	35,519,782	281,976,444	365,648,301

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	2,016,267,854	3,094,210,933
2. Reinsurance payable on paid loss and loss adjustment expenses (Schedule F, Part 1, Column 6)	82,963,829	70,032,122
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	742,764,295	729,758,862
4. Commissions payable, contingent commissions and other similar charges	1,476,794	9,049,177
5. Other expenses (excluding taxes, licenses and fees)	32,081,754	140,695,970
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	57,581,110	35,849,671
7.1 Current federal and foreign income taxes (including $ .... on realized capital gains (losses))	29,742,368	22,803,106
7.2 Net deferred tax liability		0
8. Borrowed money $ .... and interest thereon $		0
9. Unearned premiums (Part 1A, Line 37, Column 5) (after deducting unearned premiums for ceded reinsurance of $ 24,229,094 and including warranty reserves of $ 12,169,136)	43,108,518	111,595,492
10. Advance premiums		0
11. Dividends declared and unpaid:		
11.1 Stockholders		0
11.2 Policyholders		22,228,022
12. Ceded reinsurance premiums payable (net of ceding commissions)	21,673,664	6,844,721
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	13,229,512	34,078,748
14. Amounts withheld or retained by company for account of others	247,644,657	289,257,547
15. Remittances and items not allocated	58,502,234	69,487,545
16. Provision for reinsurance (Schedule F, Part 7)	0	0
17. Net adjustments in assets and liabilities due to foreign exchange rates	5,519,042	12,602,499
18. Drafts outstanding		0
19. Payable to parent, subsidiaries and affiliates		0
20. Payable for securities	50,283	128
21. Liability for amounts held under uninsured accident and health plans		0
22. Capital Notes $ .... and interest thereon $		0
23. Aggregate write-ins for liabilities	252,399,713	379,021,129
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	3,605,005,627	5,027,515,672
25. Protected cell liabilities		0
26. Total liabilities (Lines 24 and 25)	3,605,005,627	5,027,515,672
27. Aggregate write-ins for special surplus funds	0	0
28. Common capital stock		0
29. Preferred capital stock		0
30. Aggregate write-ins for other than special surplus funds	1,500,000	1,500,000
31. Surplus notes	698,355,598	698,355,598
32. Gross paid in and contributed surplus		0
33. Unassigned funds (surplus)	(528,420,718)	(497,429,633)
34. Less treasury stock, at cost:		
34.1 .... shares common (value included in Line 28 $ ....)		0
34.2 .... shares preferred (value included in Line 29 $ ....)		0
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 38)	171,434,880	202,425,965
36. TOTALS (Page 2, Line 26, Col. 3)	3,776,440,507	5,229,941,637
DETAILS OF WRITE-INS		
2301. Accounts payable and other liabilities	205,508,547	198,174,541
2302. Reinsurance funds held related to retroactive reinsurance	38,950,767	63,600,832
2303. Minimum Pension Liability	7,940,399	128,479,243
2398. Summary of remaining write-ins for Line 23 from overflow page	0	(11,233,487)
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	252,399,713	379,021,129
2701.		
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page	0	0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above)	0	0
3001. Guaranty fund	1,500,000	1,500,000
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above)	1,500,000	1,500,000

UNDERWRITING AND INVESTMENT EXHIBIT STATEMENT OF INCOME

		1 Current Year	2 Prior Year
	UNDERWRITING INCOME		
1.	Premiums earned (Part 1, Line 34, Column 4)	59,809,702	398,380,309
	DEDUCTIONS		
2.	Losses incurred (Part 2, Line 34, Column 7)	(139,268,109)	(21,660,812)
3.	Loss expenses incurred (Part 3, Line 25, Column 1)	354,887,855	(25,391,745)
4.	Other underwriting expenses incurred (Part 3, Line 25, Column 2)	74,976,195	335,801,727
5.	Aggregate write-ins for underwriting deductions	(3,428,954)	7,806,675
6.	Total underwriting deductions (Lines 2 through 5)	287,166,987	296,555,845
7.	Net income of protected cells		0
8.	Net underwriting gain or (loss) (Line 1 minus Line 6 plus Line 7)	(227,357,285)	101,824,464
	INVESTMENT INCOME		
9.	Net investment income earned (Exhibit of Net Investment Income, Line 17)	96,109,930	101,308,546
10.	Net realized capital gains (losses) (Exhibit of Capital Gains (Losses))	12,867,168	(490,960,882)
11.	Net investment gain or (loss) (Lines 9 + 10)	108,977,098	(389,652,336)
	OTHER INCOME		
12.	Net gain or (loss) from agents' or premium balances charged off (amount recovered $ 262,473 amount charged off $ 6,852,110)	(6,589,637)	(14,244,815)
13.	Finance and service charges not included in premiums	26,784	1,102,932
14.	Aggregate write-ins for miscellaneous income	21,360,748	(226,604,058)
15.	Total other income (Lines 12 through 14)	14,797,895	(239,745,941)
16.	Net income before dividends to policyholders and before federal and foreign income taxes (Lines 8 + 11 + 15)	(103,582,292)	(527,573,813)
17.	Dividends to policyholders	(49,931,358)	16,972,607
18.	Net income, after dividends to policyholders but before federal and foreign income taxes (Line 16 minus Line 17)	(53,650,934)	(544,546,420)
19.	Federal and foreign income taxes incurred	12,317,644	(27,168,635)
20.	Net income (Line 18 minus Line 19) (to Line 22)	(65,968,578)	(517,377,785)
	CAPITAL AND SURPLUS ACCOUNT		
21.	Surplus as regards policyholders, December 31 prior year (Page 4, Line 38, Column 2)	202,425,965	696,846,043
	GAINS AND (LOSSES) IN SURPLUS		
22.	Net income (from Line 20)	(65,968,578)	(517,377,785)
23.	Change in net unrealized capital gains or (losses)	(22,252,837)	107,581,822
24.	Change in net unrealized foreign exchange capital gain (loss)	7,243,566	3,626,227
25.	Change in net deferred income tax	79,106,434	119,349,325
26.	Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	(57,637,749)	(253,496,319)
27.	Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	0	84,106,200
28.	Change in surplus notes		0
29.	Surplus (contributed to) withdrawn from protected cells		0
30.	Cumulative effect of changes in accounting principles		0
31.	Capital changes:		
	31.1. Paid in		0
	31.2. Transferred from surplus (Stock Dividend)		0
	31.3. Transferred to surplus		0
32.	Surplus adjustments:		
	32.1. Paid in		0
	32.2. Transferred to capital (Stock Dividend)		0
	32.3. Transferred from capital		0
33.	Net remittances from or (to) Home Office		0
34.	Dividends to stockholders		0
35.	Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)	0	0
36.	Aggregate write-ins for gains and losses in surplus	28,518,079	(38,209,548)
37.	Change in surplus as regards policyholders for the year (Lines 22 through 36)	(30,991,085)	(494,420,078)
38.	Surplus as regards policyholders, December 31 current year (Line 21 plus Line 37) (Page 3, Line 35)	171,434,880	202,425,965
	DETAILS OF WRITE-INS		
0501.	Change in premium deficiency reserve	(3,428,954)	7,806,675
0502.			
0503.			
0598.	Summary of remaining write-ins for Line 5 from overflow page	0	0
0599.	Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above)	(3,428,954)	7,806,675
1401.	Finance and service charges not included in premiums - intercompany pool	0	217,932
1402.	Retroactive reinsurance gain/(loss)	838,570	(470,605,704)
1403.	Other income	20,522,178	14,600,546
1498.	Summary of remaining write-ins for Line 14 from overflow page	0	229,183,168
1499.	Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above)	21,360,748	(226,604,058)
3601.	Change in minimum pension liability	107,057,685	31,790,452
3602.	Correction of errors	1,518,394	0
3603.	Reinsurance allowance	(80,058,000)	(70,000,000)
3698.	Summary of remaining write-ins for Line 36 from overflow page	0	0
3699.	Totals (Lines 3601 thru 3603 plus 3698) (Line 36 above)	28,518,079	(38,209,548)

CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
Cash from Operations		
1. Premiums collected net of reinsurance	148,166,219	(176,569,523)
2. Net investment income	98,876,020	93,484,788
3. Miscellaneous income	17,654,792	(251,607,137)
4. Total (Lines 1 to 3)	264,697,031	(334,691,872)
5. Benefits and loss related payments	949,891,359	(328,566,582)
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	508,241,729	438,290,399
8. Dividends paid to policyholders	(79,500,716)	56,349,208
9. Federal and foreign income taxes paid (recovered) $ .... net of tax on capital gains (losses)	5,378,382	(21,470,303)
10. Total (Lines 5 through 9)	1,384,010,754	144,602,722
11. Net cash from operations (Line 4 minus Line 10)	(1,119,313,723)	(479,294,594)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	694,195,689	986,642,235
12.2 Stocks	284,985,793	1,101,055,536
12.3 Mortgage loans	17,519,311	40,127,929
12.4 Real estate	0	36,337,105
12.5 Other invested assets	62,160,014	68,069,854
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(183,121)	(15,000,020)
12.7 Miscellaneous proceeds	939,777	0
12.8 Total investment proceeds (Lines 12.1 to 12.7)	1,059,617,463	2,217,232,639
13. Cost of investments acquired (long-term only):		
13.1 Bonds	608,850,613	1,252,477,030
13.2 Stocks	121,346,233	257,074,538
13.3 Mortgage loans	0	4,349,116
13.4 Real estate	0	268,216
13.5 Other invested assets	27,206,632	68,408,229
13.6 Miscellaneous applications	0	153,659,310
13.7 Total investments acquired (Lines 13.1 to 13.6)	757,403,478	1,736,236,439
14. Net increase (or decrease) in policy loans and premium notes	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	302,213,985	480,996,200
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)	(115,492,197)	764,326,229
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	(115,492,197)	764,326,229
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
18. Net change in cash and short-term investments (Line 11 plus Line 15 plus Line 17)	(932,591,935)	766,027,835
19. Cash and short-term investments:		
19.1 Beginning of year	1,870,573,731	1,104,545,896
19.2 End of period (Line 18 plus Line 19.1)	937,981,796	1,870,573,731

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS EARNED

	Lines of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1.	Fire	1,287,941	1,254,031	1,035,955	1,506,017
2.	Allied lines	2,760,961	1,971,098	1,413,531	3,318,528
3.	Farmowners multiple peril	0	0	0	0
4.	Homeowners multiple peril	2,670,068	1,529,582	1,339,668	2,859,982
5.	Commercial multiple peril	(1,168,385)	2,419,624	(2,249,579)	3,500,818
6.	Mortgage guaranty	0	0	0	0
8.	Ocean marine	178,345	28,135	(2,851)	209,331
9.	Inland marine	(2,538,235)	4,279,321	662,158	1,078,928
10.	Financial guaranty	0	0	0	0
11.1	Medical malpractice - occurrence	66,560	2,166,034	2,129,942	102,652
11.2	Medical malpractice - claims-made	(32,073)	(1,784,741)	(2,129,943)	313,129
12.	Earthquake	(20,497)	88,682	86,817	(18,632)
13.	Group accident and health	1,400,538	0	0	1,400,538
14.	Credit accident and health (group and individual)	0	0	0	0
15.	Other accident and health	2,729	0	0	2,729
16.	Workers' compensation	(21,261,140)	22,056,535	2,524,845	(1,729,450)
17.1	Other liability - occurrence	(6,040,165)	48,867,650	34,157,565	8,669,920
17.2	Other liability - claims-made	69,732	(4,823,124)	(12,324,607)	7,571,215
18.1	Products liability - occurrence	(6,808,696)	298,336	(601,398)	(5,908,962)
18.2	Products liability - claims-made	(8,037)	(65,278)	(65,279)	(8,036)
19.1,19.2	Private passenger auto liability	12,498,292	3,604,309	2,652,404	13,450,197
19.3,19.4	Commercial auto liability	6,694,098	6,222,996	6,269,737	6,647,357
21.	Auto physical damage	(3,185,966)	1,580,168	266,865	(1,872,663)
22.	Aircraft (all perils)	132,465	0	0	132,465
23.	Fidelity	(48,528)	509,605	115,519	345,558
24.	Surety	6,551,685	19,407,627	6,441,827	19,517,485
26.	Burglary and theft	16,053	10,469	11,749	14,773
27.	Boiler and machinery	12,650	4,564	0	17,214
28.	Credit	67,352	113,467	46,969	133,850
29.	International	0	0	0	0
30.	Reinsurance - Nonproportional Assumed Property	0	3,274	3,274	0
31.	Reinsurance - Nonproportional Assumed Liability	(1,975,020)	1,853,128	1,323,350	(1,445,242)
32.	Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0
33.	Aggregate write-ins for other lines of business	0	0	0	0
34.	TOTALS	(8,677,273)	111,595,492	43,108,518	59,809,701
	DETAILS OF WRITE-INS				
3301.					
3302.					
3303.					
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0
3399.	Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1A - RECAPITULATION OF ALL PREMIUMS

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

	Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (b)	2 Amount Unearned (Running More Than One Year from Date of Policy) (b)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1.	Fire	1,035,955				1,035,955
2.	Allied lines	1,439,571	(26,040)			1,413,531
3.	Farmowners multiple peril					0
4.	Homeowners multiple peril	1,339,668				1,339,668
5.	Commercial multiple peril	13,810,757	(16,060,336)			(2,249,579)
6.	Mortgage guaranty					0
8.	Ocean marine	219,014	(221,865)			(2,851)
9.	Inland marine	7,084,634	(6,422,476)			662,158
10.	Financial guaranty					0
11.1	Medical malpractice - occurrence	2,195,977	(66,035)			2,129,942
11.2	Medical malpractice - claims-made	(1,636,584)	(493,359)			(2,129,943)
12.	Earthquake	184,039	(97,222)			86,817
13.	Group accident and health					0
14.	Credit accident and health (group and individual)					0
15.	Other accident and health					0
16.	Workers' compensation	25,250,286	(24,896,630)		2,171,189	2,524,845
17.1	Other liability - occurrence	25,277,046	8,880,519			34,157,565
17.2	Other liability - claims-made	(16,976,745)	4,652,138			(12,324,607)
18.1	Products liability - occurrence	(788,943)	187,545			(601,398)
18.2	Products liability - claims-made	(65,279)				(65,279)
19.1,19.2	Private passenger auto liability	2,732,126	(79,722)			2,652,404
19.3,19.4	Commercial auto liability	12,193,499	(5,923,762)			6,269,737
21.	Auto physical damage	2,099,084	(1,832,219)			266,865
22.	Aircraft (all perils)					0
23.	Fidelity	26,806	88,713			115,519
24.	Surety	2,181,181	4,260,646			6,441,827
26.	Burglary and theft	22,801	(11,052)			11,749
27.	Boiler and machinery	15,186	(15,186)			0
28.	Credit	(32,437)	79,406			46,969
29.	International					0
30.	Reinsurance - Nonproportional Assumed Property	3,274				3,274
31.	Reinsurance - Nonproportional Assumed Liability	115,740	1,207,610			1,323,350
32.	Reinsurance - Nonproportional Assumed Financial Lines					0
33.	Aggregate write-ins for other lines of business	0	0	0	0	0
34.	TOTALS	77,726,656	(36,789,327)	0	2,171,189	43,108,518
35.	Accrued retrospective premiums based on experience					
36.	Earned but unbilled premiums					
37.	Balance (Sum of Line 34 through 36)					43,108,518
	DETAILS OF WRITE-INS					
3301.						
3302.						
3303.						
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0
3399.	Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0

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

Are they so returned in this statement? Yes [X] No [ ]

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B - PREMIUMS WRITTEN

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

	Line of Business	1 Direct Business (a)	Reinsurance Assumed 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	244,403	692,516	1,162,995	(58,972)	870,945	1,287,941
2.	Allied lines	112,115	78,278	2,367,846	(144,245)	(58,477)	2,760,961
3.	Farmowners multiple peril			11,781		11,781	0
4.	Homeowners multiple peril	870,129	1,042,151	2,154,200	(46,515)	1,442,927	2,670,068
5.	Commercial multiple peril	(2,638,068)	(3,144,898)	9,169	(180,922)	(4,424,490)	(1,168,385)
6.	Mortgage guaranty						0
8.	Ocean marine	126,783	132,633		(1,838)	82,909	178,345
9.	Inland marine	9,502	(2,707,741)	(4,527)	(43,933)	(120,598)	(2,538,235)
10.	Financial guaranty						0
11.1	Medical malpractice - occurrence	9,362	(111,396)		(173,283)	4,689	66,560
11.2	Medical malpractice - claims-made	(34,685)	129,578	(50,301)	142,779	(66,114)	(32,073)
12.	Earthquake	(3,019)	(40,162)	4,361	(8,420)	(9,903)	(20,497)
13.	Group accident and health	11,944,106		300,382		10,843,950	1,400,538
14.	Credit accident and health (group and individual)						0
15.	Other accident and health	15,110		115		12,496	2,729
16.	Workers' compensation	10,668,342	(14,589,820)	105,368	(6,057,100)	23,502,130	(21,261,140)
17.1	Other liability - occurrence	2,688,457	(12,334,238)	(118,828)	(2,786,726)	(937,718)	(6,040,165)
17.2	Other liability - claims-made	(974,122)	16,499,592	965,943	16,114,208	307,473	69,732
18.1	Products liability - occurrence	(2,542,715)	(948,290)	57,784	(19,740)	3,395,215	(6,808,696)
18.2	Products liability - claims-made		(21,568)	126,677	5,222	107,924	(8,037)
19.1,19.2	Private passenger auto liability	5,857,363	755,492	12,536,611	(186,979)	6,838,153	12,498,292
19.3,19.4	Commercial auto liability	(207,576)	2,107,704	7,224,690	488,474	1,942,246	6,694,098
21.	Auto physical damage	(1,993,963)	524,279	411,426	(34,947)	2,162,655	(3,185,966)
22.	Aircraft (all perils)		(91,955)	115,694		(108,726)	132,465
23.	Fidelity	(73,049)	(49,201)		(40,768)	(32,954)	(48,528)
24.	Surety	2,845,192	4,384,472	(135,035)	(1,552,610)	2,095,554	6,551,685
26.	Burglary and theft	(2,270)	(1,969)	18,963	(838)	(491)	16,053
27.	Boiler and machinery	71,474	1,836	8	(366)	61,034	12,650
28.	Credit	320,480	(3,691)		(9,077)	258,514	67,352
29.	International						0
30.	Reinsurance - Nonproportional Assumed Property	XXX	(262)	48,313	(262)	48,313	0
31.	Reinsurance - Nonproportional Assumed Liability	XXX	(2,124,451)	809,251	(148,250)	808,070	(1,975,020)
32.	Reinsurance - Nonproportional Assumed Financial Lines	XXX					0
33.	Aggregate write-ins for other lines of business	0	0	0	0	0	0
34.	TOTALS	27,313,351	(9,821,111)	28,122,886	5,254,892	49,037,507	(8,677,273)
	DETAILS OF WRITE-INS						
3301.							
3302.							
3303.							
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0
3399.	Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0

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

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

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - LOSSES PAID AND INCURRED

		Losses Paid Less Salvage				5	6	7	8
		1	2	3	4				
	Line of Business	Direct Business	Reinsurance Assumed	Reinsurance Recovered	Net Payments (Cols. 1 + 2 - 3)	Net Losses Unpaid Current Year (Part 2A, Col. 8)	Net Losses Unpaid Previous Year	Losses Incurred Current Year (Cols. 4 + 5 - 6)	Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
1.	Fire	543,394	4,100,346	1,823,973	2,819,767	3,544,820	3,186,758	3,177,829	211.0
2.	Allied lines	451,248	(5,496,117)	(5,120,049)	75,180	307,580	2,174,367	(1,791,607)	(54.0)
3.	Farmowners multiple peril		150,638	150,638	0	(51,139)	4,161	(55,300)	0.0
4.	Homeowners multiple peril	9,583,757	28,295,655	31,037,158	6,842,254	10,476,902	15,432,428	1,886,728	66.0
5.	Commercial multiple peril	21,678,456	53,296,085	(11,815,190)	86,789,731	132,790,865	191,809,586	27,771,010	793.3
6.	Mortgage guaranty				0	0	0	0	0.0
8.	Ocean marine	2,483,724	(551,764)	2,158,928	(226,968)	2,384,635	(9,400,098)	11,557,765	5,521.3
9.	Inland marine	10,599,491	(4,319,840)	(2,786,598)	9,066,249	8,346,502	12,386,058	5,026,693	465.9
10.	Financial guaranty				0	0	0	0	0.0
11.1	Medical malpractice - occurrence	12,500	(233,850)	(228,693)	7,343	328,316	286,874	48,785	47.5
11.2	Medical malpractice - claims-made	311,778	(2,312,280)	(3,065,011)	1,064,509	4,285,253	4,576,952	772,810	246.8
12.	Earthquake	33,071	(104,186)	(94,261)	23,146	36,583	(1,781,245)	1,840,974	(9,880.7)
13.	Group accident and health	18,139,591	8,305,142	19,791,196	6,653,537	31,163,449	39,670,852	(1,853,866)	(132.4)
14.	Credit accident and health (group and individual)				0	0	0	0	0.0
15.	Other accident and health	872,430	147,680	(330,279)	1,350,389	(284,988)	1,693,646	(628,245)	(23,021.1)
16.	Workers' compensation	180,709,749	36,291,114	(197,565,266)	414,566,129	1,094,728,312	1,573,965,035	(64,670,594)	3,739.4
17.1	Other liability - occurrence	252,631,657	100,100,397	162,287,833	190,444,221	308,517,550	720,470,721	(221,508,950)	(2,554.9)
17.2	Other liability - claims-made	57,318,960	72,511,027	82,482,220	47,347,767	107,765,168	141,999,259	13,113,676	173.2
18.1	Products liability - occurrence	18,935,389	2,632,751	21,809,849	(241,709)	(73,942,920)	(102,201,496)	28,016,867	(474.1)
18.2	Products liability - claims-made		(28,141,340)	(28,141,340)	0	(17,563)	11,068,280	(11,085,843)	137,952.3
19.1,19.2	Private passenger auto liability	38,514,828	100,199,814	57,824,653	80,889,989	78,695,570	110,739,871	48,845,688	363.2
19.3,19.4	Commercial auto liability	61,584,956	37,478,179	39,624,848	59,438,287	89,837,045	174,194,040	(24,918,708)	(374.9)
21.	Auto physical damage	3,316,450	8,136,181	12,975,118	(1,522,487)	(1,436,198)	(1,216,296)	(1,742,389)	93.0
22.	Aircraft (all perils)		2,124,568	1,080,501	1,044,067	8,666,731	10,483,017	(772,219)	(583.0)
23.	Fidelity	3,658,968	4,012,977	6,319,721	1,352,224	(9,637)	1,299,156	43,431	12.6
24.	Surety	16,286,763	36,230,646	26,755,126	25,762,283	23,513,468	66,746,523	(17,470,772)	(89.5)
26.	Burglary and theft	154,465	20,374	13,963	160,876	6,780	40,347	127,309	861.8
27.	Boiler and machinery	244,059	(8,424,369)	(8,048,690)	(131,620)	404,454	1,095,502	(822,668)	(4,779.1)
28.	Credit	1,846,326	(1,011,724)	595,839	238,763	1,648,907	(1,082,632)	2,970,302	2,219.1
29.	International				0	0	0	0	0.0
30.	Reinsurance - Nonproportional Assumed Property	XXX	1,591,139	1,541,278	49,861	769,721	819,582	0	0.0
31.	Reinsurance - Nonproportional Assumed Liability	XXX	88,823,835	84,012,653	4,811,182	183,791,696	125,749,692	62,853,186	(4,349.0)
32.	Reinsurance - Nonproportional Assumed Financial Lines	XXX			0	0	0	0	0.0
33.	Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0.0
34.	TOTALS	699,912,010	533,853,078	295,090,118	938,674,970	2,016,267,862	3,094,210,940	(139,268,108)	(232.9)
	DETAILS OF WRITE-INS								
3301.									
3302.									
3303.									
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0	0	0.0
3399.	Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0	0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

		Reported Losses				Incurred But Not Reported			8	9
		1	2	3	4	5	6	7		
	Line of Business	Direct	Reinsurance Assumed	Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	Direct	Reinsurance Assumed	Reinsurance Ceded	Net Losses Unpaid (Cols. 4 +5 + 6 - 7)	Unpaid Loss Adjustment Expenses
1.	Fire	99,858	2,032,676	1,693,116	439,418	258,698	2,576,480	(270,224)	3,544,820	401,733
2.	Allied lines	70,165	1,139,972	961,194	248,943	74,785	921,237	937,385	307,580	134,333
3.	Farmowners multiple peril		429,706	429,706	0		(115,713)	(64,574)	(51,139)	(544)
4.	Homeowners multiple peril	3,265,581	10,748,707	7,235,099	6,779,189	2,192,652	6,440,613	4,935,552	10,476,902	2,306,259
5.	Commercial multiple peril	31,888,327	121,774,435	32,266,731	121,396,031	10,206,741	46,083,425	44,895,332	132,790,865	126,753,612
6.	Mortgage guaranty				0				0	
8.	Ocean marine	1,901,521	478,752	2,136,150	244,123	1,451,159	573,021	(116,332)	2,384,635	755,500
9.	Inland marine	5,823,598	(2,668,918)	2,082,371	1,072,309	6,381,867	3,106,400	2,214,074	8,346,502	2,220,304
10.	Financial guaranty				0				0	
11.1	Medical malpractice - occurrence	20	26,600	21,108	5,512	990,667	49,728	717,591	328,316	120,677
11.2	Medical malpractice - claims-made	823,230	3,255,857	2,212,004	1,867,083	1,350,434	3,905,072	2,837,336	4,285,253	1,469,195
12.	Earthquake	2,697	102,662	(131,711)	237,070	560	(78,651)	122,396	36,583	(203,236)
13.	Group accident and health	91,680,818	24,547,384	83,111,495	33,116,707	(3,384,091)	1,315,590	(115,243)	(a) 31,163,449	906,020
14.	Credit accident and health (group and individual)				0				0	
15.	Other accident and health			49,143	(49,143)	(111,379)	(121,647)	2,819	(a) (284,988)	3,251
16.	Workers' compensation	608,024,552	1,252,144,438	518,894,997	1,341,273,993	25,667,225	209,624,610	481,837,516	1,094,728,312	223,489,093
17.1	Other liability - occurrence	420,453,004	165,307,679	272,343,025	313,417,658	237,902,585	33,346,621	276,149,314	308,517,550	156,544,538
17.2	Other liability - claims-made	58,912,042	51,805,204	66,547,043	44,170,203	90,137,347	57,595,608	84,137,990	107,765,168	33,380,995
18.1	Products liability - occurrence	28,246,577	39,715,435	160,013,054	(92,051,042)	50,961,759	(17,485,802)	15,367,835	(73,942,920)	121,649,311
18.2	Products liability - claims-made		1,437,284	1,428,282	9,002		(456,989)	(430,424)	(17,563)	190,937
19.1,19.2	Private passenger auto liability	29,485,673	89,946,560	55,519,575	63,912,658	11,589,557	24,444,670	21,251,315	78,695,570	26,939,738
19.3,19.4	Commercial auto liability	55,035,639	76,517,328	69,224,789	62,328,178	22,933,495	51,741,022	47,165,650	89,837,045	20,632,290
21.	Auto physical damage	188,155	576,362	510,563	253,954	(1,579,133)	(105,579)	5,440	(1,436,198)	(250,874)
22.	Aircraft (all perils)	62,106,055	9,491,459	64,200,323	7,397,191	(2,644,840)	(333,157)	(4,247,537)	8,666,731	958,368
23.	Fidelity	972,802	546,495	1,066,605	452,692	(241,344)	(2,370,428)	(2,149,443)	(9,637)	160,167
24.	Surety	86,020,766	61,360,578	113,358,269	34,023,075	7,594,600	(2,649,966)	15,454,241	23,513,468	11,891,381
26.	Burglary and theft	10	(15,475)	9	(15,474)	652	24,161	2,559	6,780	15,380
27.	Boiler and machinery	272	24,071	(237,441)	261,784	65,173	223,187	145,690	404,454	149,398
28.	Credit	643,934		507,103	136,831	5,956,282	506,284	4,950,490	1,648,907	125,152
29.	International				0				0	
30.	Reinsurance - Nonproportional Assumed Property	XXX	624,315	(48,516)	672,831	XXX	(2,019,501)	(2,116,391)	769,721	(5,714)
31.	Reinsurance - Nonproportional Assumed Liability	XXX	190,479,882	90,275,447	100,204,435	XXX	286,342,799	202,755,538	183,791,696	12,027,038
32.	Reinsurance - Nonproportional Assumed Financial Lines	XXX			0	XXX			0	
33.	Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0	0
34.	TOTALS	1,485,645,296	2,101,829,448	1,545,669,533	2,041,805,211	467,755,451	703,083,095	1,196,375,895	2,016,267,862	742,764,302
	DETAILS OF WRITE-INS									
3301.										
3302.										
3303.										
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0	0	0	0
3399.	Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0	0	0	0

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	79,347,867			79,347,867
1.2 Reinsurance assumed	(70,427,508)			(70,427,508)
1.3 Reinsurance ceded	(285,600,670)			(285,600,670)
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	294,521,029	0	0	294,521,029
2. Commission and brokerage:				
2.1 Direct excluding contingent		4,308,260		4,308,260
2.2 Reinsurance assumed excluding contingent		5,999,885		5,999,885
2.3 Reinsurance ceded excluding contingent		50,136,552		50,136,552
2.4 Contingent-direct				0
2.5 Contingent-reinsurance assumed				0
2.6 Contingent-reinsurance ceded				0
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	(39,828,407)	0	(39,828,407)
3. Allowances to managers and agents		299		299
4. Advertising		1,042		1,042
5. Boards, bureaus and associations	4,269	(222,178)		(217,909)
6. Surveys and underwriting reports		92,453		92,453
7. Audit of assureds' records		498,757		498,757
8. Salary and related items:				
8.1 Salaries	7,808,715	26,876,697	971,587	35,656,999
8.2 Payroll taxes	600,835	3,035,075	72,168	3,708,078
9. Employee relations and welfare	376,722	(37,281,451)	361,966	(36,542,763)
10. Insurance		37,104,263		37,104,263
11. Directors' fees		785,605		785,605
12. Travel and travel items	247,591	650,885	2,057	900,533
13. Rent and rent items	701,152	13,413,215		14,114,367
14. Equipment	34,150	967,025	514	1,001,689
15. Cost or depreciation of EDP equipment and software		4,309,015		4,309,015
16. Printing and stationery	144,072	895,353	26,222	1,065,647
17. Postage, telephone and telegraph, exchange and express	210,239	2,679,792	207,719	3,097,750
18. Legal and auditing	19,210	11,583,793	835,175	12,438,178
19. Totals (Lines 3 to 18)	10,146,955	65,389,640	2,477,408	78,014,003
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of $ (658,600)		22,171,832		22,171,832
20.2 Insurance department licenses and fees		834,051		834,051
20.3 Gross guaranty association assessments		(658,600)		(658,600)
20.4 All other (excluding federal and foreign income and real estate)		6,480,410		6,480,410
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)	0	28,827,693	0	28,827,693
21. Real estate expenses			4,239,066	4,239,066
22. Real estate taxes			2,372,772	2,372,772
23. Reimbursements by uninsured accident and health plans				0
24. Aggregate write-ins for miscellaneous expenses	50,219,871	20,587,269	3,516,193	74,323,333
25. Total expenses incurred	354,887,855	74,976,195	12,605,439	(a) 442,469,489
26. Less unpaid expenses - current year	742,764,295	89,595,018	1,544,639	833,903,952
27. Add unpaid expenses - prior year	729,758,862	184,905,720	689,098	915,353,680
28. Amounts receivable relating to uninsured accident and health plans, prior year	0	0	0	0
29. Amounts receivable relating to uninsured accident and health plans, current year				0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	341,882,422	170,286,897	11,749,898	523,919,217
DETAILS OF WRITE-INS				
2401. All other	50,219,871	20,587,269	3,516,193	74,323,333
2402.				
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page	0	0	0	0
2499. Totals (Lines 2401 thru 2403 plus 2498) (Line 24 above)	50,219,871	20,587,269	3,516,193	74,323,333

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

EXHIBIT OF NET INVESTMENT INCOME

			1 Collected During Year		2 Earned During Year
1.	U.S. Government bonds	(a)	19,305,393		19,154,036
1.1	Bonds exempt from U.S. tax	(a)	26,329		13,079
1.2	Other bonds (unaffiliated)	(a)	35,240,613		32,686,705
1.3	Bonds of affiliates	(a)			
2.1	Preferred stocks (unaffiliated)	(b)	687,403		687,403
2.11	Preferred stocks of affiliates	(b)			
2.2	Common stocks (unaffiliated)		15,573		14,621
2.21	Common stocks of affiliates		33,793,037		33,793,037
3.	Mortgage loans	(c)	677,363		648,996
4.	Real estate	(d)	5,390,673		5,523,556
5.	Contract loans				
6.	Cash, cash equivalents and short-term investments	(e)	9,954,273		13,319,971
7.	Derivative instruments	(f)			
8.	Other invested assets		1,638,868		1,641,878
9.	Aggregate write-ins for investment income		1,531,199		1,531,199
10.	Total gross investment income		108,260,724		109,014,481
11.	Investment expenses			(g)	12,605,439
12.	Investment taxes, licenses and fees, excluding federal income taxes			(g)	
13.	Interest expense			(h)	299,112
14.	Depreciation on real estate and other invested assets			(i)	
15.	Aggregate write-ins for deductions from investment income				0
16.	Total (Lines 11 through 15)				12,904,551
17.	Net Investment Income - (Line 10 minus Line 16)				96,109,930
	DETAILS OF WRITE-INS				
0901.	Income from securities lending		20,328		20,328
0902.	Income from other sources		1,510,871		1,510,871
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)		1,531,199		1,531,199
1501.					
1502.					
1503.					
1598.	Summary of remaining write-ins for Line 15 from overflow page				0
1599.	Total (Lines 1501 through 1503 plus 1598) (Line 15, above)				0

(a) Includes $ 808,549 accrual of discount less $ 10,556,310 amortization of premium and less $ 3,066,383 paid for accrued interest on purchases.
(b) Includes $ .... accrual of discount less $ .... amortization of premium and less $ .... paid for accrued dividends on purchases.
(c) Includes $ .... accrual of discount less $ .... amortization of premium and less $ .... paid for accrued interest on purchases.
(d) Includes $ 3,227,337 for company's occupancy of its own buildings; and excludes $ .... interest on encumbrances.
(e) Includes $ 1,613,455 accrual of discount less $ 1,769,981 amortization of premium and less $ 2,224,689 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 Increases (Decreases) by Adjustment	4 Total
1.	U.S. Government bonds	659,444			659,444
1.1	Bonds exempt from U.S. tax				0
1.2	Other bonds (unaffiliated)	8,275,557	(2,782,034)	54,788	5,548,311
1.3	Bonds of affiliates				0
2.1	Preferred stocks (unaffiliated)	1,274,826	(1,000,000)	(1,931,665)	(1,656,839)
2.11	Preferred stocks of affiliates				0
2.2	Common stocks (unaffiliated)	4,212,132	(4,972)	(3,864,813)	342,347
2.21	Common stocks of affiliates	14,923,890	(5,191,568)	(18,515,766)	(8,783,444)
3.	Mortgage loans	212,674	1,994,453		2,207,127
4.	Real estate		(5,890,402)		(5,890,402)
5.	Contract loans				0
6.	Cash, cash equivalents and short-term investments	(183,121)		8,056	(175,065)
7.	Derivative instruments				0
8.	Other invested assets		(3,633,711)	79,104	(3,554,607)
9.	Aggregate write-ins for capital gains (losses)	0	0	1,917,459	1,917,459
10.	Total capital gains (losses)	29,375,402	(16,508,234)	(22,252,837)	(9,385,669)
	DETAILS OF WRITE-INS				
0901.	Change in deferred gain on investment transfers from subsidiaries			1,917,459	1,917,459
0902.					0
0903.					
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999.	Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	0	1,917,459	1,917,459

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks	0	0	0
2.2 Common stocks	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	0	0	0
3.2 Other than first liens	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company	0	0	0
4.2 Properties held for the production of income	0	0	0
4.3 Properties held for sale	0	0	0
5. Cash, (Schedule E, Part 1), cash equivalents (Schedule E, Part 2) and short -term investments (Schedule DA)	0	0	0
6. Contract loans	0	0	0
7. Other invested assets (Schedule BA)	1,304	213,043	211,739
8. Receivable for securities	0	0	0
9. Aggregate write-ins for invested assets	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	1,304	213,043	211,739
11. Investment income due and accrued	0	0	0
12. Premiums and considerations:			
12.1 Uncollected premiums and agents' balances in the course of collection	78,074,458	72,323,695	(5,750,763)
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	30,261,172	67,874,012	37,612,840
12.3 Accrued retrospective premium	4,809,459	6,911,811	2,102,352
13. Reinsurance:			
13.1 Amounts recoverable from reinsurers	0	0	0
13.2 Funds held by or deposited with reinsured companies	0	0	0
13.3 Other amounts receivable under reinsurance contracts	0	0	0
14. Amounts receivable relating to uninsured plans	0	0	0
15.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0
15.2 Net deferred tax asset	692,434,369	613,327,935	(79,106,434)
16. Guaranty funds receivable or on deposit	0	0	0
17. Electronic data processing equipment and software	0	0	0
18. Furniture and equipment, including health care delivery assets	0	0	0
19. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
20. Receivables from parent, subsidiaries and affiliates	0	0	0
21. Health care and other amounts receivable	0	0	0
22. Other assets nonadmitted	0	73,130	73,130
23. Aggregate write-ins for other than invested assets	35,519,782	22,739,169	(12,780,613)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	841,100,544	783,462,795	(57,637,749)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0
26. Total (Lines 24 and 25)	841,100,544	783,462,795	(57,637,749)
DETAILS OF WRITE-INS			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above)	0	0	0
2301. Insurance recoveries related to UBIC	11,675,000	0	(11,675,000)
2302. Other admitted assets	10,689,712	15,413,645	4,723,933
2303. Amounts receivable under high deductible policies	13,155,070	7,325,524	(5,829,546)
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	35,519,782	22,739,169	(12,780,613)

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

The accompanying financial statements of Lumbermens Mutual Casualty Company (the "Company") have been prepared in conformity with the National Association of Insurance Commissioners (the "NAIC") *Accounting Practices and Procedures Manual* (the "Manual") and in conformity with accounting practices prescribed by the Illinois Department of Financial and Professional Regulation – Division of Insurance (the "Division of Insurance"). Under administrative supervision by the Division of Insurance, the Company is operating under a run-off plan filed with the Division of Insurance in 2004 and is subject to confidential corrective orders ("Corrective Orders") issued by the Division of Insurance in 2004 and 2003 (see Note 14).

Prescribed Accounting Practices

(in millions) Prescribed Practices	December 31, 2003	December 31, 2004	Reduction
Loss Reserve Discounting[1]	$ 851	$574	$277
Pre-paid ULAE	105	66	39
Pension Plan Discount Rate	118	0	118
Post-Retirement Benefit Obligation	32	0	32
Schedule F Provision[2]	78	(4)	82
Total	$1,184	$636	$548

[1]Total tabular and non-tabular reserve discount at December 31, 2004 at 4.2% of $761.2 million. This represents the sum of (1) workers compensation medical non-tabular discount at 4.2%, (2) workers compensation indemnity discount at 4.2% in excess of 3.5%, and (3) discount at 4.2% for all other lines (see Note 32).

[2]Represents the surplus impact of the difference between the projected Schedule F penalty at December 31, 2003 and December 31, 2004 ($148 million and $146 million, respectively) and the projected actual provisions for reinsurance. The provision for reinsurance at December 31, 2003 and December 31, 2004 was $70 million and $150 million, respectively (see Note 23).

2004

The accompanying financial statements of the Company at December 31, 2004 reflect a $636 million increase in the Company's reported surplus at that date over what would have been reported without the following three accounting practices prescribed by the Division of Insurance under Corrective Orders:

1. Loss Reserve Discounting. The Company discounts all its loss reserves at 4.2%. Prior to 2003, the Company discounted at 3.5% only certain categories of liabilities on its balance sheet, essentially the tabular discount on pension liabilities, pursuant to prescribed accounting practices (see Note 32). At December 31, 2004, the total amount of the discount, included on the balance sheet and on Schedule P is $761 million. The 4.2% discount rate exceeds the Company's current investment portfolio yield (see Note 14). With the prescribed accounting allowance, the Company's surplus as of December 31, 2004 is estimated to be approximately $574 million more than it would have been under the tabular discount.

2. Prepaid Unallocated Loss Adjustment Expense ("ULAE"). The balance sheet of the Company at December 31, 2004 reflects as an admitted asset the amounts that the Company has prepaid for claim handling services to NATLSCO/Broadspire (approximately $50 million; see Note 10) and to National Indemnity Company (approximately $16 million; see Note 10). Approximately $39 million of ULAE expenses related to these two service providers were expensed in 2004.

3. Change in Estimate for Uncollectible Reinsurance. The Company has established a general provision for uncollectible reinsurance of $150 million at December 31, 2004. (In addition, the Company wrote off approximately $3 million of reinsurance recoverables during 2004.) The Schedule F penalty otherwise prescribed by the Manual would have been $146 million. Therefore, the net detriment to the Company's surplus at December 31, 2004 from this prescribed accounting practice amounted to approximately $4 million.

2003

At December 31, 2003, there were five accounting allowances granted by the Division of Insurance under Corrective Orders which produced a cumulative benefit to the Company's surplus of approximately $1.2 billion at that date.

1. Loss Reserve Discounting. The estimated increase in the Company's surplus as of December 31, 2003 from discounting all its loss reserves at 4.2% was approximately $610 million more

NOTES TO FINANCIAL STATEMENTS

than it would have been under the tabular discount. The Company had previously received permission from the Division of Insurance to discount its medical workers compensation claims on a non-tabular basis, which produced a benefit of $241 million.

2. Prepaid Unallocated Loss Adjustment Expense ("ULAE"). The balance sheet of the Company at December 31, 2003 reflected as an admitted asset the amounts that the Company had then prepaid for claim handling services to NATLSCO/Broadspire (approximately $82 million) and to National Indemnity Company (approximately $23 million). Approximately $15 million of ULAE expenses related to these two service providers were expensed in 2003.

3. Defined Benefit Plans Accumulated Benefit Obligation ("ABO"). The balance sheet of the Company at December 31, 2003 reflected a change in the applicable interest rate assumption for calculating the ABO liability under the qualified Kemper Retirement Plan and the unqualified Kemper Supplemental Retirement Plan from 6.25% to 7.5%. The higher rate assumption reduced the ABO liability at December 31, 2003 by approximately $118 million from what the lower rate assumption would have produced. The Company's liabilities under both plans were eliminated in 2004 (see Note 12).

4. Accrued Post-Retirement Benefit Obligation. Effective January 1, 2004, the Company amended its post-retirement benefit plans to reduce benefits. The economic effect of the entire reduction in liability attributable to this change, a difference of approximately $32 million at December 31, 2003, was recorded immediately rather than as a gradual reduction of the liability over the average life span of the retirees at that time.

5. Change in Estimate for Uncollectible Reinsurance. The Company established a general provision for uncollectible reinsurance of $70 million at December 31, 2003. (In addition, the Company wrote off approximately $13 million of reinsurance recoverables in 2003.) The net benefit to the Company's surplus at December 31, 2003 from this prescribed accounting allowance over the general Schedule F penalty provision for uncollectible reinsurance amounted to approximately $78 million.

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

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

As further discussed below, significant estimates and assumptions affect various provisions including losses and policyholder dividends. The liabilities for losses and loss adjustment expenses, 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 loss adjustment expenses related to environmental and asbestos claims are also subject to a greater degree of uncertainty and variability. Policyholder dividend recalls (accrued retrospective premiums) and dividends payable are estimated based on similar assumptions used to estimate the ultimate liabilities for losses and loss adjustment expenses.

C. Accounting Policy

The Company's significant accounting policies are as follows:

Bonds and short-term investments are valued generally 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 mortgage-backed and asset-backed securities, over the estimated life of the security. Such amortization is included in investment income. Amortization of the discount or premium from mortgage-backed and asset-backed securities is recognized 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. 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.

Investments in unaffiliated common stocks are generally carried at market values provided by the NAIC, and unaffiliated preferred stocks are carried at market value in accordance with the methods in the *Purposes and Procedures of the Securities Valuation Office of the NAIC* (the "SVO Manual").

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

NOTES TO FINANCIAL STATEMENTS

Mortgage loans are carried at their unpaid principal balance, net of any impairments.

Other invested assets include notes receivable and joint venture interests. Notes receivable are carried at their unpaid principal balance. Joint ventures in which the Company has a less than 10% ownership interest are carried at underlying GAAP equity. Joint ventures in which the Company has a greater than 10% ownership interest are carried at the underlying statutory equity of the joint venture's financial statements. The Company also has a real estate joint venture which is accounted for as a real estate acquisition, development and construction (ADC) arrangement and accordingly is carried at its underlying statutory equity.

Premiums are generally earned on a daily pro rata basis over the term of the policies and are net of reinsurance placed with reinsurers. 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 anticipates investment income as a factor in determining premium deficiency reserves (see Note 30).

At December 31, 2004, all real estate owned is held for sale and is carried at the lower of cost or fair value less estimated costs to sell.

The Company is the lead company of the group of affiliated and associated companies (the "Group") that have operated under the trade name of the Kemper Insurance Companies. The significant majority of the business written by member insurance companies of the Group 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, American Motorists Insurance Company ("AMICO") and American Manufacturers Mutual Insurance Company ("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, 2003 and 2004, the net reserves at each of AMICO and AMM are zero. Loss and loss expense reserves for the Group were analyzed in the aggregate for all companies and allocated to certain Company subsidiaries based on the business retained within those companies.

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. Certain liabilities for unpaid losses related to workers' compensation pension cases and long-term disability losses are discounted to present value, as discussed above.

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

The Company 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 loss adjustment expenses 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.

NOTES TO FINANCIAL STATEMENTS

The Company utilizes a variety of reinsurance agreements to control exposures to large property-casualty losses including, (i) facultative reinsurance, in which reinsurance is provided for all or a portion of the insurance provided by a single policy; (ii) treaty reinsurance, in which reinsurance is provided for a specified type or category of risks; and (iii) catastrophe reinsurance, in which the ceding company is indemnified for an amount of loss in excess of a specified retention with respect to losses resulting from a catastrophic event.

Realized gains or losses on the sale of investments, the recognition of other-than-temporary declines in value or situations where the Company has made a decision to sell a security at an amount below its 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 to unassigned surplus.

The Company does not accrue interest income on fixed maturities deemed to be impaired on an other-than-temporary basis, or on real estate-related investments when it judges that the likelihood of collection of interest is doubtful.

Assets included in the statutory statements of admitted assets, liabilities and surplus are at admitted asset value. Nonadmitted assets, principally deferred tax assets, agents' balances over 90-days past due, computer software, other equipment, and 10% of unsecured policyholder dividends recoverable, are excluded through a charge against surplus.

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

Accounting changes adopted to conform to the provisions of the Manual are reported as changes in accounting principles. The cumulative effect of the changes in accounting principles is reported as an adjustment to unassigned surplus in the period in which the Company adopts or changes to a new accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the period and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods.

Accounting Changes

None.

Correction of Errors

During 2004, the Company determined that the realized loss recorded in 2003 on the sale of a subsidiary was overstated by $36.8 million. Accordingly, this amount was reported as a correction of an error in 2004, which resulted in a corresponding increase to the Company's surplus and liquidity (see Note 10 - *Broadspire*).

During 2004, the Company determined that its calculation for accrued retrospective premiums (dividend recalls) contained certain errors that existed at December 31, 2003. These errors amounted to $35.3 million. Accordingly, these amounts were reported as a correction of an error in 2004 which resulted in corresponding decreases to the Company's surplus and accrued retrospective premium asset.

3. BUSINESS COMBINATIONS AND GOODWILL

During 2003, the Company wrote-off all remaining unamortized goodwill, in the amount of $45.4 million, reflecting management's judgment of its impaired value. The goodwill related to purchases of insurance companies over the then prior five years. This write-off of goodwill was a result of the Company, in early 2003, substantially ceasing its underwriting operations and entering into a commercial run-off (see Note 14). The write-off was charged directly to surplus as a component of the change in net unrealized capital losses in 2003.

4. DISCONTINUED OPERATIONS

In accordance with the Manual, the Company does not reserve for all the costs which may be projected for its run-off; however, the Company is carrying approximately $3.0 million at December 31, 2004 as reserves for discontinued operations related to the run-off of certain of its subsidiary or branch operations. The reserve for discontinued operations related to the Company's New Jersey-domiciled subsidiary, Universal Bonding Insurance Company ("UBIC"), which has been in run-off status since mid-2002 (see Note 10), was $2.2 million at December 31, 2004 and $2.9 million at December 31, 2003. Reserves related to the Company's discontinued international operations, which primarily entered run-off in 2003 (see Note 10), were $0.8 million at December 31, 2004 and $2.7 million at December 31, 2003.

NOTES TO FINANCIAL STATEMENTS

5. INVESTMENTS

In November of 2004, the Company agreed to sell its residential mortgage portfolio. During the due diligence period, several deficiencies in documentation were discovered requiring 26 loans to be excluded from the sale. Seven of the 26 loans which had an aggregate outstanding principal of approximately $1.5 million were completely written-off in December of 2004. No new mortgage loans were made during 2004. The maximum percentage of a loan to the value of the security at the time of the loan was 90%. As of December 31, 2004, there are no mortgages with interest more than 180 days overdue, and none where interest rates have been reduced. The Company has not paid any taxes, assessments, or other advances on account of mortgage loans outstanding which are not included in the mortgage loan balance.

Prepayment assumptions used for mortgage-backed and asset-backed securities were obtained from an external securities information service and are consistent with the current interest rate and economic environment.

The fair values of the Company's bonds and unaffiliated preferred and common stocks have been determined using market quotations determined by the NAIC, or independent pricing services that use prices provided by market makers or estimates of fair values obtained from yield data relating to instruments or securities with similar characteristics, or fair value as determined in good faith by the Company's portfolio managers, when such values are not available from the NAIC. Fair values of short-term investments are estimated to approximate their carrying values.

All of the Company's loan-backed securities were acquired after January 1, 1994.

During 2003, the Company reclassified all of its real estate owned from company-occupied to held for sale and obtained appraisals for properties not sold. As a result of the appraisals, the Company recorded impairment writedowns of $44,686,502 related to its real estate owned in 2003.

In the third quarter of 2004, the Company signed a definitive agreement, subject to final approvals and closing, to sell its home office complex in Long Grove, Illinois, and to lease back a portion of that office space for the Company's current operations. In anticipation of the proposed sale terms, the Company recorded an impairment writedown on the property and recognized an approximate surplus detriment of $5.9 million in the third quarter. The sale is expected to close in early 2005, at which time the Company expects to receive a liquidity benefit of approximately $30 million from the sale.

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

There are no material remaining capital commitments of the Company at December 31, 2004. At December 31, 2003, the Company was committed under certain relatively illiquid investment partnership agreements to contribute up to $35.0 million to those ventures. During 2004, the Company recorded impairment writedowns of $4.5 million related to certain of its investments in joint venture, partnership and liability company interests. The Company's investments in venture partnerships were sold in 2004, and the Company was relieved of all its commitments related thereto. The sale price of these investments approximated $44.7 million and resulted in a liquidity gain of that amount.

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, 2004.

8. DERIVATIVE INSTRUMENTS

None.

9. INCOME TAXES

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

		December 31, 2004		December 31, 2003
Total of gross deferred tax assets	$	696,013,680		622,072,595
Total of deferred tax liabilities		(3,579,311)		(8,744,660)
Net deferred tax asset		692,434,369		613,327,935
Deferred tax asset nonadmitted		(692,434,369)		(613,327,935)
Net admitted deferred tax asset		0		0
Increase in nonadmitted asset	$	(79,106,434)		

All deferred tax liabilities were recognized.

NOTES TO FINANCIAL STATEMENTS

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

		December 31, 2004		December 31, 2003
Federal	$	14,496,170		(21,966,507)
Foreign		(2,178,526)		(5,202,128)
Federal and foreign income taxes incurred	$	12,317,644		(27,168,635)

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

		December 31, 2004		December 31, 2003
Deferred tax assets:				
Reserves	$	43,198,231		52,482,813
Accrued liabilities		35,919,072		108,997,123
Loss carryforwards		423,049,279		268,840,985
Investments		72,536,809		80,729,712
Receivables		108,488,141		87,641,375
Other		12,822,148		23,380,587
Total deferred tax assets		696,013,680		622,072,595
Nonadmitted deferred tax assets		(692,434,369)		(613,327,935)
Admitted deferred tax assets		3,579,311		8,744,660
Deferred tax liabilities:				
Salvage and subrogation		(3,441,569)		(6,594,097)
Investments		(137,742)		(2,150,563)
Total deferred tax liabilities		(3,579,311)		(8,744,660)
Net admitted deferred tax asset	$	0		0

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

		December 31, 2004		December 31, 2003		Change
Total deferred tax assets	$	696,013,680		622,072,595	$	73,941,085
Total deferred tax liabilities		(3,579,311)		(8,744,660)		5,165,349
Net deferred tax asset	$	692,434,369		613,327,935		79,106,434
Tax effect of unrealized gains (losses)						0
Changes in net deferred income tax					$	79,106,434

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

		December 31, 2004
Provision computed at statutory rate	$	(18,777,827)
Prior period adjustment		12,900,332
Receivables		(33,191,266)
Subsidiary mergers		(32,091,932)
Accrued liabilities		27,149,246
Tax-exempt investment income		(11,978,408)
Loss reserves		(13,217,310)
Other		2,418,375
Total	$	(66,788,790)
Federal and foreign income taxes incurred	$	12,317,644
Change in net deferred income taxes		(79,106,434)
Total statutory income taxes	$	(66,788,790)

At December 31, 2004, the Company had $1,208,712,227 of operating loss carry forward which originated and expires as follows:

NOTES TO FINANCIAL STATEMENTS

Origination Year		Expiration Year		Amount
2000		2020		$155,349,192
2001		2021		$364,380,513
2002		2022		$139,043,399
2003		2023		$166,839,727
2004		2024		$383,099,396

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.

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: AMICO, AMICO Realty Corporation, American Protection Insurance Company, American Protection Property & Casualty Agency, Inc., American Protection Property & Casualty Agency, Inc. of Texas, American Protection Property and Casualty Insurance Agency, Inc., American Underwriting Corporation, GreatLand Holdings, Inc., GreatLand Insurance Company, Juris Prudent, Inc., Kemper Casualty, Inc., Kemper Casualty Insurance Company, Kemper Commercial Insurance Company, Kemper Comprehensive Insurance Company, Kemper Cost Management Holding Company, Inc., Kemper Employers Group, Inc., Kemper Environmental Managers, Inc., Kemper Financial Protection, Inc., Kemper Indemnity Insurance Company, Kemper Insurance Group, Inc., Kemper Insurance Holdings #2, Inc., Kemper International Corporation, Kemper Lloyds Insurance Company, Kemper Realty Corporation, Kemper Surplus Lines Insurance Company, Kemper Technology Services, Inc., Kemper Warranty Services, Inc., Kempes, Inc., K-P Plaza Dallas, LGA-1, Inc., LGA-2, Inc., LGA-3, Inc., LGA-16, Inc., LGA-17, Inc., Lou Jones & Associates, Nereus Holdings, Inc., Pacific Eagle Insurance Company, Point & Quote Insurance Services, Inc., RidgeLand Insurance Company, Specialty Insurance Managers, Inc., Specialty National Insurance Company, Specialty Resource Risk Services, Inc., Specialty Surplus Insurance Company, Universal Bonding Holding Company, and Universal Bonding Insurance Company.

The Company has a written tax allocation agreement which has been approved by the Company's Board, which provides for Federal income taxes to be paid to or recovered from the Company based on each subsidiary company's taxable income or taxable loss as if the subsidiary were filing a separate Federal income tax return. This agreement provides that in the event of a Federal income tax recovery which is greater than the amount recoverable from the other companies in the consolidated return or from the Internal Revenue Service, 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, AND AFFILIATES

The Company is the lead company of the Kemper Insurance Companies. The Company is a mutual insurance company. Significant affiliated parties are disclosed in the organizational chart of Schedule Y. Investments in affiliates or subsidiaries are disclosed in Schedule D under the caption "Parents, Subsidiaries and Affiliates." Notes receivable from subsidiaries or affiliates are disclosed in Schedule BA. Certain commitments and contingencies are set forth in Note 14.

Significant Transactions in 2004

Sale of Kemper Mexico

On April 30, 2004, the Company closed the sale of 100% of the stock of Kemper de Mexico, Compania de Seguros, S.A., for $9.25 million. The sale resulted in no gain or loss to surplus in 2004. In 2003, the Company recognized an impairment for approximately $13.9 million on this subsidiary in anticipation of the sale in early 2004.

Subsidiary Mergers

On August 31, 2004, three indirect wholly-owned subsidiaries of the Company, Kemper Indemnity Insurance Company, Kemper Surplus Lines Insurance Company, and Pacific Eagle Insurance Company, merged with and into AMICO, another wholly-owned subsidiary of the Company. On December 31, 2004, two other-indirect wholly owned subsidiaries, American Protection Insurance Company and Specialty National Insurance Company, merged with and into AMICO. AMICO was the surviving entity in the five mergers. As a result of the mergers, the Company and AMICO obtained approval from the Division of Insurance for AMICO to declare and pay to the Company an extraordinary dividend of approximately $161.7 million on December 31, 2004.

Renewal Rights Transactions

Prior to 2004 (see *Significant Transactions in 2003* below), the Company entered into various renewal rights transactions pursuant to which the Company and its affiliates are or were to receive then current

NOTES TO FINANCIAL STATEMENTS

and/or future commissions in return for the purchasing companies' acquisitions of the rights and information necessary to renew business that the Company and its affiliates could no longer write due to various business factors, including ratings, deteriorating financial condition, and regulatory concerns. Renewal rights revenue earned by the Company in 2004 totaled $44.6 million.

The 2004 renewal rights revenue total includes $7.6 million related to the May 2003 sale to the St. Paul Companies of renewal rights for small business and middle market commercial insurance policies. This amount, plus another $10.0 million earned in 2003, became payable in 2004. The amounts payable by the St. Paul Companies, although they are not disputed, have not been paid. Approximately $17.6 million is reflected as a receivable on the Company's December 31, 2004 balance sheet. The St. Paul Companies are withholding payment as an asserted offset on amounts they claim are due to other St. Paul Companies on entirely unrelated matters arising from certain surety operations. This unresolved issue on the unrelated matter is currently the subject of negotiations. The Company expects to collect fully the $17.6 million receivable.

The 2004 renewal rights revenue total also includes $35.4 million received from Unitrin, Inc. ("Unitrin") and its subsidiary, Trinity Universal Insurance Company ("Trinity"), related to the sale in 2002 of the Company's and its affiliates' U.S. personal lines business. (Renewal rights revenue from Unitrin and Trinity in 2003 totaled $7.3 million.) Of the Unitrin amount for 2004, $31.5 million was received by the Company in the third quarter. The amounts paid in the third quarter of 2004 were primarily due to a mutual agreement, approved by the Division of Insurance, to settle future contingent commission payment obligations owed to the Company. Pursuant to this agreement, Unitrin also extended its and its affiliates' five-year license to use the Kemper name in the acquired personal lines businesses to 100 years. This transaction in the third quarter of 2004 resulted in a benefit to the Company's surplus and liquidity of approximately $31.5 million.

In connection with the sale to Unitrin in 2002, the Company and Unitrin entered into administrative service agreements whereby Unitrin continues to monitor and service the Company's run-off of its retained personal lines policies. (Unitrin did not acquire 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.) The Company and certain of its affiliates agreed to front for Trinity for a transition period in those 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. Unitrin substantially completed that transition process in 2004. As of December 31, 2004, approximately $44.9 million of the Company's liabilities are fronted policies that are 100% reinsured by Trinity. Not only are the reinsured policies fully administered (including claims handled) by the Unitrin subsidiaries, the fronted policies are covered by a cut-through provision allowing the insureds to seek direct recourse to Trinity in the event of any insolvency of the Company.

SeaBright Insurance Company

Following the September 30, 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. As part of the 2003 sale transaction, the Company provided a stop loss reinsurance agreement to KEIC, now SeaBright, and collateralized that reinsurance with a collateral trust initially in the amount of $1.6 million (in addition to an escrow in the amount of $4.0 million). Being subject to adjustment in the event of adverse development of pre-sale KEIC reserves, the amount in the trust was increased by the Company adding approximately $3.2 million to the trust in the fourth quarter of 2004. The adverse development also resulted in the Company recording a $4.7 million detriment ($2.7 million net of discount) to its surplus as of December 31, 2004.

Broadspire

The Company sold its NATLSCO, Inc. subsidiary and related claim service operations to Broadspire LLC in July 2003. Based on purchase price adjustment provisions in the sale contract, the Company initially asserted a claim against Broadspire for $22.9 million and carried that amount as an asset on the Company's December 31, 2003 and 2004 balance sheets. Based on subsequently discovered information in 2004, the Company has increased its claim to approximately $33 million but has not recorded the increase. Broadspire disputes that amount and asserts an $8 million claim against the Company under the same provisions. This dispute is currently the subject of binding arbitration, with a ruling expected in the first quarter of 2005. In connection with the 2003 sale agreement, Broadspire did pay to the Company $36.8 million in the third quarter of 2004, which amount correspondingly increased the Company's surplus and liquidity in 2004.

International Operations

The Company has seven international insurance operations in six countries. These operations accounted for approximately $56 million of the Company's surplus at December 31, 2004. These

NOTES TO FINANCIAL STATEMENTS

operations consist of a branch of the Company in Canada, another branch in Japan, a branch of AMICO (formerly a branch of Specialty National Insurance Company) in Canada, and four insurance company subsidiaries, one in each of Australia, Belgium, Bermuda, and Singapore.

The Company is exploring reinsurance alternatives for the closure of the two Canadian branches. Combined as of December 31, 2004, the two branches have more than $34 million of invested assets in excess of recorded liabilities. Virtually all of the invested assets in Canada, approximately, $56.4 million, are encumbered in trust in Canada. The trust is required by Canadian regulators who must approve any releases of assets from the trust, even releases to pay claims, and who have not approved certain payments of the branch's liabilities at this time. A goal of closing the branches is an increase in the Company's liquidity which would be the consequence of the repatriation to the U.S. of any surplus amount held in Canada.

The Company concluded loss portfolio reinsurance transactions in each of Japan and Singapore in 2004, and is settling its final outstanding claim in Australia, as a prelude to an orderly liquidation of the Japanese branch and the Singapore and Australian subsidiaries (and the planned return of liquid assets of up to approximately $6 million to Lumbermens in the U.S.) by the end of 2005. The Company is exploring reinsurance and/or sale alternatives for its Belgium subsidiary and has initiated a solvent scheme in Bermuda to address most of its subsidiary's existing liabilities there.

UBIC Surety Bonds

Universal Bonding Insurance Company ("UBIC") is a wholly-owned subsidiary of the Company domiciled in New Jersey. In connection with certain surety bonds fronted by the Company for UBIC prior to 2003, the Company realized cumulative losses of approximately $107 million through 2004. The losses arose primarily in connection with a series of unauthorized programs by UBIC, then 80% owned, the true nature of which was not fully disclosed to certain members of UBIC's management or to the Company until mid-2002. At that time, the Company began pursuing an investigation into the validity, available defenses and potential recoveries of such bonds, and UBIC then entered run-off status and discontinued issuing any further bonds, except those bonds which UBIC was statutorily obligated to renew. As of December 31, 2004, the Company carries approximately $25 million of net recoverables from insurers and reinsurers related to UBIC bond losses, some of which are the subject of litigation. As of December 31, 2004, the Company carries its investment in this subsidiary at zero, UBIC has no employees, and the Company provides certain administrative and claim services for the subsidiary.

Affiliate Support for D&O Insurance

In connection with a portion of the Company's and its affiliates' corporate insurance program, a wholly owned subsidiary of the Company, Specialty Surplus Insurance Company ("SSIC"), entered into a reinsurance agreement, effective for a three-year period (2005, 2006, and 2007), facultatively reinsuring a corresponding three-year A-side management liability policy issued by an unaffiliated third party to the Company and AMM. SSIC is depositing the reinsurance premium it receives into trust for the benefit of the third-party insurer to collateralize the reinsurance obligation. If and to the extent there are no claims on the D&O policy, then ratably over the three years, SSIC can earn the reinsurance premium, which would increase its surplus and therefore the Company's surplus on a consolidated basis over that time period and liquidity after the end of the period.

Significant Transactions in 2003

Service Net Solutions, LLC

On July 2, 2003, a wholly-owned subsidiary of the Company, Kemper Warranty Services, Inc. (KWS), sold its 51% ownership stake in Service Net Solutions, LLC ("Service Net") for a purchase price of $6.5 million and a release of the Company's future financial obligations arising under the original purchase agreement. The purchase price is payable in installments through December 31, 2006; purchase price installments of $3.25 million were paid in 2003 and $1.25 million in 2004. The Company realized a net gain in 2003 of $732 thousand as a result of the sale. Service Net retained its current staff of approximately 40 employees. As part of the transaction, the Company established a collateral trust initially in the amount of $35 million. The trust secures and funds obligations arising out of contractual liability policies issued to Service Net by the Company and its affiliates to reimburse Service Net for its payments under consumer warranty contracts sold by Service Net to its customers during the time from early 2001 when the Company owned 51% of Service Net. Trust assets at December 31, 2004 and 2003 were $6.8 million and $25.8 million, respectively. The Company is not obligated to add any amounts to the trust, but the Company remains liable for its contractual liability policies.

NATLSCO, Inc.

On July 22, 2003, the Company sold its wholly-owned subsidiary NATLSCO, Inc. and related service operations ("NATLSCO") to a buyer (Broadspire LLC) owned by Platinum Equity LLC ("Broadspire"). NATLSCO's operations included most of the assets used in the administration of the Company's general liability, workers compensation, and employer liability claims, as well as third-party claim

NOTES TO FINANCIAL STATEMENTS

servicing operations. As part of the transaction, Broadspire hired approximately 3,300 of the Company's employees. The Company agreed to share in any severance costs incurred by Broadspire, up to a maximum of $6 million dollars, for two years following the closing date. The Company assumed that the full $6 million would be incurred for purposes of calculating the realized loss on the transaction (and the Company has paid approximately $2.2 million of this amount through December 31, 2004). In 2003, the Company booked a realized loss on the transaction of $180.8 million, assigning no value to contingent earn out payments which the Company could realize in years 2004 through 2007. A benefit to surplus of $36.8 million was recorded in 2004 related to a correction of an error on the original sale price. The final post-closing settlement was originally scheduled to occur in the second quarter of 2004, but the amount of that settlement currently is in dispute and subject to binding arbitration (see *Significant Transactions of 2004 - Broadspire* above).

The Company also entered into a long-term Claim Administration Agreement with NATLSCO (now Broadspire) for the servicing of most of the Company's existing workers' compensation, general liability, and employer liability claims. The Company paid approximately $95.3 million in advance for the future servicing of such claims, of which $56.8 million was placed in trust by Broadspire to be drawn down monthly over a four-year period commencing January 1, 2006. The Company is not obligated to add any assets to the trust. The Company receives the interest on Broadspire's trust assets. In accordance with the prescribed practice more fully described in Note 1, the Company reflects as an admitted asset the prepaid amount for claim handling services (approximately $82 million as of December 31, 2003 and $50 million as of December 31, 2004).

Kemper Cost Management, Inc.

On August 16, 2003, a wholly-owned subsidiary of the Company, Kemper Cost Management Holding Company, Inc., sold 100% of the capital stock of its wholly-owned subsidiary, Kemper Cost Management, Inc. ("KCM"). KCM is a provider of contract maintenance alternatives for commercial equipment. In conjunction with the sale, the buyer of KCM agreed to retain its current staff of 36 employees. As part of the transaction, the Company agreed to pay $850 thousand for future claims services provided to the Company by KCM for managing the runoff of contractual liability policies issued by the Company and its affiliates. The Company realized a gain of $380 thousand in 2003 as a result of the sale.

Lumbermens Life Agency, Inc.

On September 8, 2003, the Company sold 100% of the capital stock of its wholly-owned subsidiary, Lumbermens Life Agency, Inc., an Illinois corporation that markets life insurance and annuities through independent agents. The agency has since been renamed MGN Agency LLC. The sale included four subsidiaries of the agency and certain assets used in the business as well as the transfer of fourteen employees. The Company realized a gain of $1.4 million from the transaction in 2003.

Eagle Insurance Companies

On September 30, 2003, the Company, one of its wholly-owned holding company subsidiaries, Kemper Employers Group, Inc. ("KEG"), and two wholly-owned non-Illinois insurance subsidiaries of KEG, Eagle Pacific Insurance Company, then a Washington-domiciled company ("Eagle Pacific"), and Pacific Eagle Insurance Company, then a California-domiciled company ("Pacific Eagle"), entered into a transaction with SeaBright Insurance Holdings LLC ("SeaBright"). Pursuant to that transaction, SeaBright acquired the following companies and assets:

A. From KEG, SeaBright acquired 100% of the capital stock of KEIC and 100% of the capital stock of PointSure Insurance Services, Inc., a Washington corporation and insurance agency. Immediately before the sale, the Company and KEIC commuted their intercompany reinsurance agreement, with KEIC reassuming from the Company approximately $13 million of previously ceded liabilities in return for a cash payment by the Company of the same amount. In connection with the commutation, the Company agreed to reinsure KEIC for any adverse development on pre-closing date KEIC policy liabilities. The Company's claim handling prepayments to NATLSCO (see description of NATLSCO sale above and see Note 1) covered unallocated loss adjusting expenses of approximately $852,000 for KEIC's pre-closing claims. Following the sale, KEIC changed its name to SeaBright Insurance Company.

B. From Eagle Pacific and Pacific Eagle, SeaBright acquired the renewal rights to all business previously written by the Eagle companies and the tangible and intangible assets used in the writing and administration of the business of the Eagle companies. In connection with this transaction, SeaBright hired all of the more than 100 employees of Eagle and the Company, most located in Seattle, Washington, who had been handling the Eagle business. SeaBright also agreed to provide administrative and claim handling services to the Eagle companies which then moved into run-off status.

NOTES TO FINANCIAL STATEMENTS

The purchase price for the two companies was $14.2 million, of which Eagle Pacific's share was $2.6 million and Pacific Eagle's was approximately $133 thousand. The Company's December 31, 2003 surplus included a $1.2 million gain on the above transactions with SeaBright. That amount increased by $0.7 million in 2004, reflecting a post-closing adjustment based on the final closing balance sheet completed in 2004 and contingent renewal rights commissions earned in 2004.

On December 31, 2003, Eagle Pacific and the Company commuted their intercompany reinsurance agreements under which most of Eagle Pacific's business was ceded to the Company (which agreements also effectively reinsured with the Company most of Pacific Eagle's 2003 business since that business was subject to a pooling agreement between the two Eagle companies). This commutation was immediately followed by a merger of Eagle Pacific into another wholly-owned, Illinois-domiciled subsidiary of the Company, American Protection Insurance Company ("AMPICO"). The surviving company, AMPICO, pursuant to a previously existing intercompany reinsurance agreement with the Company, reinsures 100% of its business with the Company. Both AMPICO and Pacific Eagle merged into AMICO in 2004 (see *Significant Transactions in 2004 - Subsidiary Mergers* above).

Renewal Rights Transactions

In 2003, the Company and its affiliates entered into several renewal rights transactions allowing the Company and its affiliates to receive future commissions from other insurance companies that renew certain inforce business when such business expires or cancels from the Company or its affiliates. In some cases, employees and leases were also transferred related to certain of the Company's business lines, resulting in future expense savings related to severance and lease costs.

The Company and its affiliates entered into the following renewal rights transactions:

Kemper Business Line	Purchaser of renewal rights		Renewal rights Revenue earned in 2003
Small and middle market accounts	St. Paul Companies	$	24,963,270
Excess casualty	St. Paul Companies		2,000,000
Personal lines	Unitrin, Inc.		7,830,032
Directors and officers liability	AXIS Capital Holdings		5,699,999
Bundled large risk accounts	Argonaut Insurance Company		5,125,803
Alternative risk programs	Hartford Fire Insurance Company		1,391,901
Environmental casualty	Zurich Insurance		837,352
Unbundled large risk accounts	Old Republic		353,664
		$	48,202,021

The Company's share of the renewal rights revenue earned in 2003 was $44,345,859.

Reinsurance Transaction between the Company and AMM

Effective December 31, 2003, the Company and AMM entered into a reinsurance transaction, the results of which included (1) an amendment to the Pooling Agreement that removed AMM from the Pool (see Note 1) and ceded all net liabilities of AMM at December 31, 2003 to the Company and (2) the issuance by the Company of a new insurance policy to each and every policyholder of AMM other than those policyholders already fully reinsured by Trinity Universal Insurance Company, a subsidiary of Unitrin. In exchange for the issuance of these new insurance policies, AMM incurred an approximate charge of $229.2 million, and the Company recorded income of the same amount, for the year ended December 31, 2003. Absent this reinsurance transaction as well as certain accounting allowances granted by the Division of Insurance (see Note 1), the statutory surplus of the Company at December 31, 2003 would have been negative. In turn, AMM's solvency would also be at risk given AMM's significant reliance on its substantial reinsurance recoverables from the Company.

Historically, AMM and other Kemper Insurance Companies have ceded their directly written insurance business to the Company as their reinsurer, and the Company in turn has ceded to AMM 8% of that pooled business. As part of the reinsurance transaction described herein, the 8% cession from the Company to AMM was eliminated, with the Company receiving as payment from AMM assets equal to AMM's loss and loss expense reserves/liabilities (approximately $370 million) assumed by the Company. AMM then also paid to the Company an amount equal to the remainder of AMM's December 31, 2003 statutory surplus less $10 million. The payments were in cash, securities, and the assignment of assets or beneficial rights to assets where the legal title to such assets could not be directly accomplished by December 31, 2003. (Legal title to certain assets of AMM which are restricted

NOTES TO FINANCIAL STATEMENTS

from transfer, because they are statutory deposits or collateral for other purposes or subject to other restrictions, is to be transferred to the Company at the earliest practicable date.)

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 to each holder of a policy ever issued by AMM, including any policy no longer in force but excluding any policy reinsured by Unitrin, an additional policy which is substantively identical to the policy previously issued by AMM. 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.

Because the reinsurance transaction was not assumption reinsurance and AMM policies were not novated, the affected policyholders now hold separate policies issued by both AMM and the Company. AMM remains liable for policy liabilities in the event the Company does not comply with all the terms of the affected policies. AMM has $600 million in reinsurance due from the Company as of December 31, 2004.

The reinsurance transaction was approved by the Division of Insurance, as well as by independent committees of the boards of directors of each of the Company and AMM following receipt of fairness opinions by their respective independently engaged financial advisors.

Kemper Insurance Group and Berkshire Hathaway

On June 20, 2003, the Company and AMM and certain affiliates of Berkshire Hathaway Inc. ("Berkshire") commuted two reinsurance agreements entered into at year-end 2001 and during 2002, returning to the Company and AMM substantially all reinsurance premium, net of loss recoveries, previously paid thereunder (approximately $697.3 million); amended a claim services agreement to return to the Company (and its affiliates) a previously paid deposit ($89 million); and replaced existing security arrangements which had been entered into in early 2003 (in connection with Berkshire affiliates issuing cut-through agreements for the benefit of insureds of the Company and its affiliates) with both (a) a collateral trust (encumbering approximately $250.8 million of the Company's and AMM's assets at June 20, 2003) and (b) the purchases from Berkshire (and corresponding pledges of the same to Berkshire) by the Company and AMM of Berkshire debt instruments (Schedule D bonds totaling approximately $257.3 million). In addition, a stock subsidiary of the Company, Kemper Insurance Group, Inc. ("KIG"), repurchased for $125 million Berkshire's 15 percent interest in KIG on June 20, 2003; Berkshire had acquired that minority interest for $125 million approximately a year earlier, on June 28, 2002. Substantially all of the Company's investments in KIG, approximately $603.1 million, were transferred back to the Company in the second half of 2003.

History of KIG and Berkshire Relationships

Effective December 31, 2001, the Company and certain of its insurance company affiliates (collectively, "Kemper") entered into an Asbestos and Environmental Loss Portfolio Transfer Agreement (the "A&E Reinsurance Agreement") with National Fire & Marine Insurance Company ("National Fire") and National Indemnity Company ("National Indemnity"), wholly-owned subsidiaries of Berkshire. Under the terms of the A&E Reinsurance Agreement, Kemper ceded to National Fire and National Indemnity, at the rate of 65% of subject losses, $550.0 million of asbestos, environmental and other mass tort reserves, for $352.5 million in cash. Kemper also had an option to buy an additional $50.0 million of coverage for an additional premium of $8.0 million. This contract at that time resulted in a retroactive reinsurance gain for Kemper increasing then reported statutory surplus by $197.5 million. In connection with this contract, National Fire and National Indemnity assumed administration of the claims settlement process, and in accordance with the terms of the contract, Kemper prepaid $27.5 million for the claim services and deposited another $89 million with the claim service provider. As described in the preceding paragraph, on June 20, 2003, the latter amount was returned to Kemper and the A&E Reinsurance Agreement was commuted. The commutation in 2003 resulted in the recognition of a retroactive loss on reinsurance, reducing the Company's statutory surplus by $197.5 million.

The Company formed Kemper Commercial Insurance Company ("Kemper Commercial") under the insurance laws of the State of Illinois in March 1999 as a wholly-owned subsidiary of KIG. On June 28, 2002, three Berkshire affiliates, namely, National Fire, National Indemnity and Columbia Insurance Company (Columbia, and together with National Fire and National Indemnity, the "Berkshire Investor") acquired for $125.0 million a 15% equity position in KIG plus warrants to acquire an additional 2.5% equity stake in KIG (this June 28, 2002 transaction herein referred to as the "National Fire transaction"). The Company held all of the equity in KIG other than what the Berkshire Investor held. Berkshire and the Berkshire Investor filed with the Division of Insurance a disclaimer of control with respect to

NOTES TO FINANCIAL STATEMENTS

Kemper Commercial in June 2002. On June 20, 2003, as mentioned above and further described below, KIG repurchased the minority interest held by the Berkshire Investor.

In connection with the National Fire transaction in the first half of 2002, Kemper entered into certain reinsurance agreements, including a Loss Reserve Reinsurance Agreement (the "ADC Reinsurance Agreement") with National Fire and National Indemnity. Under the terms of this agreement, Kemper paid National Fire and National Indemnity a total of $405.0 million in cash during the first quarter of 2002 to protect Kemper against adverse loss development from policies with accident year dates of December 31, 2001 and prior. This contract resulted in a retroactive reinsurance gain increasing then reported statutory surplus by $120.0 million. On June 20, 2003, as mentioned above, the ADC Reinsurance Agreement was commuted. The commutation in 2003 resulted in the recognition of a retroactive loss on reinsurance, reducing the Company's statutory surplus by $124.2 million.

Also as part of the National Fire transaction, the Company, through KIG, contributed an additional $697.0 million of paid-in capital to Kemper Commercial and entered into a quota share reinsurance agreement with Kemper Commercial effective as of January 1, 2002 (the "Kemper Commercial Reinsurance Agreement"). Under the terms of the Kemper Commercial Reinsurance Agreement, the Company ceded to Kemper Commercial 80% of the premium income, losses and expenses of certain of its lines of commercial casualty and specialty insurance businesses, with policy effective dates as of January 1, 2002 and subsequent. In addition to the reimbursement of 80% of the costs and expenses of those businesses by Kemper Commercial, Kemper Commercial paid the Company a 0.25% ceding commission.

In addition to the investment in KIG, as part of the National Fire transaction in 2002, Kemper also entered into the AMM Middle Market Multi Line Quota Share Reinsurance Agreement (the "Middle Market QS Agreement") with National Fire effective January 1, 2002. The Middle Market QS Agreement covered business written or renewed related to commercial package, commercial casualty and automobile lines between January 1, 2002 and December 31, 2003 produced through Kemper's middle market profit center. Under the terms of the Middle Market QS Agreement, Kemper ceded 80% of the gross net written premium produced by the profit center in exchange for an 80% quota share participation of subject losses. Kemper also received a ceding commission equal to the lesser of 80% of actual allocated expenses or 30% of premiums ceded to National Fire. As of December 31, 2004, Kemper has ceded to National Fire under the Middle Market QS Agreement from its inception net written premiums of $536.6 million and subject losses and loss adjusting expenses of $340.8 million.

Effective December 22, 2002, Kemper and National Indemnity entered into a letter of intent (the "Berkshire Letter of Intent") whereby the Company agreed in principle to repurchase or cause KIG to repurchase for $125.0 million the Berkshire Investor's 15% interest in KIG (plus the KIG warrants), subject to approvals by the respective Boards of Directors and the Division of Insurance. As a result of the repurchase of this interest, the Company's statutory surplus at June 30, 2003 was reduced by $23.2 million.

The Berkshire Letter of Intent with National Indemnity as amended January 13, 2003 provided Kemper with immediate access to cut-through agreements issued by National Indemnity. The cut-through agreements were applied to certain standard commercial and specialty lines of insurance. This cut-through agreement allows a Kemper insured to directly submit claims to National Indemnity in the event Kemper (as the insurance company which issued 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. Cut-through agreements were added to certain policies in-force as of December 23, 2002 and to certain new policies issued on and after December 23, 2002 until September 30, 2003. From inception of the use of the cut-throughs in late December 2002 through 2004, Kemper incurred net cut-through agreement fees of approximately $15 million, substantially all of which was incurred by the Company during 2003 and prior.

Under the Berkshire Letter of Intent with National Indemnity, Kemper immediately provided collateral available to National Indemnity if and to the extent National Indemnity makes any payments under any cut-through agreements. The collateral includes offset rights granted to National Indemnity for reinsurance proceeds payable by either National Indemnity or National Fire to Kemper or its affiliates; a collateral trust initially in an amount of approximately $250.0 million as of the end of June 2003, which amount is subject to quarterly reductions by payments of claims (losses and loss adjustment expenses) and mid-term cancellations of policies (the trust amount has decreased to approximately $206.7 million at December 31, 2003 and $98.8 million at December 31, 2004); and an investment of $257.3 million in Berkshire corporate obligations (Schedule D admitted assets) which the Company and AMM purchased from (and pledged as security to) Berkshire in 2003. If National Indemnity makes no payments under the cut-through agreements, then of the $257.3 million of pledged obligations, $100 million matures in March 2025, while the remaining $157.3 million is subject to mandatory redemption

NOTES TO FINANCIAL STATEMENTS

as and when the Company pays claims on policies covered by the cut-through agreements following exhaustion of the assets in the aforementioned collateral trust which must first be applied to such claim payments. The Company projects that at current claim payment rates, the trust assets will be reduced to zero by late 2005 or early 2006.

In the third quarter of 2003, following KIG's June 20, 2003 repurchase of Berkshire's 15% ownership in KIG (which resulted in the Company regaining 100% indirect ownership of Kemper Commercial), Kemper Commercial paid an extraordinary dividend of $547.9 million to KIG (which in turn paid the same dividend amount to the Company), and the Company and Kemper Commercial commuted the Kemper Commercial Reinsurance Agreement with the payment to the Company by Kemper Commercial of $337.0 million. Kemper Commercial was dissolved effective December 31, 2003, with the last remaining assets of Kemper Commercial (approximately $3.3 million) being transferred to the Company in early 2004.

Capital Contributions

During 2004 and 2003, the Company made capital contributions to several of its affiliates primarily to fund cash flow operating needs, as follows:

		2004	2003
		(in thousands)	
NATLSCO, Inc.	$	0	140,878
Universal Bonding Holding Company, Inc.		0	27,487
Kemper Casualty, Inc.		0	15,971
Service Net, LLC		0	5,000
Kemper Employers Group, Inc.		0	3,268
Kemper Cost Management, Inc.		0	2,497
Kemper International Corporation		1,642	1,594
Kemper Financial Protection, Inc.		0	456
GreatLand Holdings, Inc.		0	404
All other		26	1038
	$	1,668	198,593

Stockholder Dividends and Return of Capital

The Company recorded stockholder dividends and return of capital from the following subsidiaries and affiliates during 2004 and 2003:

		2004	2003
		(in thousands)	
Kemper International Corporation	$	0	13,613
AMICO		161,664	383,100
Total	$	161,664	396,713

On December 31, 2004, AMICO's Board of Directors approved the return of capital of $127.9 million and declared an ordinary cash dividend of $33.8 million payable to the Company, its sole shareholder and parent. Both transactions were approved by the Division of Insurance.

In March 2003, AMICO's Board of Directors approved the return of capital of 370.4 million and declared an ordinary cash dividend of $12.7 million payable to the Company. Both transactions were approved by the Division of Insurance.

Intercompany Transactions

The Company reported the following amounts due from (to) affiliates at December 31, 2004:

Affiliate		December 31, 2004
AMICO		$51,336,291
AMM		15,577,426
UBIC		(14,403,549)
SSIC		5,441,748
Kemper Casualty Insurance Company		441,516
Kemper International Insurance Company (Pte.) Limited		(4,654,829)
Kemper Lloyds Insurance Company		2,793
All other affiliates		41,849
Total receivable from affiliates		$53,783,245

NOTES TO FINANCIAL STATEMENTS

The Company's policy is to settle intercompany balances with domestic affiliates on a quarterly basis, except with respect to UBIC.

The Company provides certain facilities and administrative services to its subsidiaries and affiliates, except with respect to UBIC on a cost incurred or estimated allocation basis under administrative services agreements. These costs have been allocated to the companies in conformity with customary insurance accounting practices consistently applied.

Guarantees

The Company has guaranteed the minimum capital and surplus requirements under state law for three of its wholly-owned, Illinois-domiciled subsidiaries: Kemper Casualty Insurance Company, Specialty Surplus Insurance Company ("SSIC") and Specialty National Insurance Company ("SNIC"). The Company also guaranteed SSIC's and SNIC's minimum risk based capital ratios. The Company believes that the SNIC guarantees ceased to have effect as of the date, December 31, 2004, when SNIC merged into AMICO. The Company also has guaranteed the obligations under policies issued on or after January 1, 2002 by Kemper, S.A. (Societe Anonyme), a wholly-owned insurance subsidiary incorporated under the laws of Belgium. Those policies are also reinsured by the Company under an excess of loss reinsurance agreement for any net loss in excess of $50 thousand.

Impairment Write-downs

Excluding goodwill (which is charged directly to surplus), the Company recognized impairment write-downs as realized capital losses for the following investments in subsidiaries during 2004 and 2003:

Company		2004		2003
Kemper Insurance Group, Inc.	$	0		106,446,378
Universal Bonding Holding Company		0		27,486,655
Kemper International Corporation		0		27,381,705
Kempes, Inc.		0		16,556,707
Kemper Financial Protection, Inc.		0		4,401,902
Kemper Casualty, Inc.		0		1,135,916
LGA-3, Inc.		25,680		1,006,804
Kemper Employers Group, Inc.		5,165,888		914,360
Kemper Cost Management Holding Company, Inc.		0		338,000
Kemper Warranty Services		0		322,818
American Protection Property & Casualty Agency, Inc.		0		20,828
Kemper Realty Corporation		0		19,733
All other		0		7,669
	$	5,191,568		186,039,475

The write-downs were based upon the Company's view that the unrealized losses related to such subsidiaries were impaired on an other than temporary basis. Statement value for such subsidiaries, adjusted for non-admitted assets deemed to be recoverable, were used as a proxy for fair value.

11. DEBT

None.

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

A. Employee Retirement Plans

As of the end of the second quarter of 2004, the Company carried a $33.2 million liability for its non-qualified supplemental retirement plan and related liabilities ("SRP") which historically provided the promise of future benefits to certain highly compensated employees. Former employees represented all of the accrued SRP liabilities. In the third quarter of 2004, in light of the Company's financial condition and with the approval of the Division of Insurance, the Company offered to pay SRP participants who had vested benefits a substantially discounted present value of those benefits. As a result, in the third quarter of 2004, the Company paid to SRP participants $4.6 million, reflecting an average discount of over 86%, and the Company recorded a benefit increasing policyholders surplus by $28.6 million.

Similar to the SRP buyout, the Company paid a substantially discounted present value of $2.3 million in the third quarter to buyout $11.7 million of long-term disability self-insured obligations owed to certain employees. As a result, the Company recognized a surplus benefit of $9.4 million in 2004.

NOTES TO FINANCIAL STATEMENTS

During 2004, the Company funded and accrued a total of $21.5 million into its non-contributory qualified defined benefit pension plans. As previously reported at December 31, 2003, the Company had recorded directly against surplus a minimum pension liability of $128.5 million, reflecting the difference between the pension plans' accumulated benefit obligation and the market value of the pension plans' assets at that time.

On October 19, 2004, the Pension Benefit Guaranty Corporation (the "PBGC"), the federal corporation responsible for guaranteeing payment of pension benefits, notified the Company that the PBGC would move to take control of the Company's defined benefit pension plans effective October 21, 2004. The benefits under the pension plans are insured through the PBGC; it is anticipated that the benefit levels for the majority of the approximately twelve thousand plan participants will not be significantly affected by this development; and payments to retirees will continue uninterrupted. Future retirees will receive their pension from the PBGC when they are eligible to retire.

The Company and the PBGC entered into an agreement in late 2004 resolving the Company's liabilities under the qualified plan. As a result of the PBGC action and the agreement, the Company's surplus as of December 31, 2004 increased approximately $107 million, reflecting the benefit of the release of the minimum pension liability previously recorded at December 31, 2003 ($128.5 million), less the sum of the amounts funded and accrued during 2004 ($21.5 million).

B. Deferred Compensation Plans

Profit Sharing Plan

In the fourth quarter of 2004, the Company announced that it will cease matching contributions to the Company's 401(K) plan beginning in 2005. This action is projected to eliminate approximately $1 million of compensation expense for the Company in 2005. The Company had previously terminated any discretionary profit sharing; this announcement reflected a further amendment to the profit sharing plan to eliminate a previously mandatory feature pursuant to which the Company had matched each participating employee's contributions up to 4% of the employee's salary.

Retention Plan

The Company's workforce decreased to approximately 340 employees at December 31, 2004, slightly below the headcount anticipated in the run-off plan for that date. To help stabilize the workforce, the Company in the third quarter of 2004 implemented, among other things, a retention plan providing for scheduled quarterly payments. Such retention payments totaled approximately $1.3 million in each of the third and fourth quarters of 2004. Payments under this retention plan satisfied a portion of the Company's obligations to pay in February 2005 otherwise guaranteed annual bonuses under certain employment agreements with approximately 30 employees; the remaining payments to those employees in February 2005 totaled $835 thousand.

Incentive Program

In the third quarter of 2004, the Company also implemented, in lieu of any other annual short-term bonus plan, an incentive program linked to successfully achieving or exceeding certain targets as anticipated in the Company's approved run-off plan. The program also takes into account payments under the aforementioned employment agreements and retention plan. Payments under this program are anticipated to total approximately $2.7 million (which was fully accrued at December 31, 2004) in the first quarter of 2005.

Restricted Stock, Other Deferred Compensation, and Stock Option Plans

As of September 30, 2004, certain of the Company's subsidiaries had accrued liabilities related to stock option plans totaling $2.2 million, consisting of $1.5 million previously accrued at December 31, 2003 plus amounts that vested in early 2004. In the fourth quarter of 2004, the Company paid $0.2 million to settle those liabilities, which resulted in a surplus increase of approximately $2.0 million as of December 31, 2004. The Company continues to carry deferred compensation liabilities of approximately $1.7 million at December 31, 2004.

The Company has a severance program for its employees; the maximum benefit provides up to one year of salary depending on the level of an employee and time with the Company. Severance liabilities are not reflected on the Company's balance sheet unless an employee is notified of termination without cause. Severance payments in 2004 totaled $20.5 million, and severance liabilities recorded at December 31, 2004 totaled $0.7 million.

NOTES TO FINANCIAL STATEMENTS

C. Postretirement Benefits

The Company historically provided non-pension retirement benefits consisting of certain health care benefits and life insurance for retired employees. Through December 31, 2004, the cost of the health care benefit was borne jointly by the Company (which was self insured for its share) and its retirees (and spouses) at varying percentages depending on the age and service of the plan participant. Effective January 1, 2003, the Company placed a cap on the level of subsidy provided by the Company. For all current and future groups who received subsidized coverage in 2003 and 2004, the Company's costs were capped at 120% of the 2003 subsidy levels. In addition, effective January 1, 2004, the Company (i) changed its funding policy for post-retirement medical, shifting more of the annual costs to the retiree while reducing the amount the Company would then pay for post retirement medical; and (ii) changed its eligibility requirements for post retirement medical so only active employees age 55 or older as of January 1, 2004 with ten or more years of service with the Company would be eligible for medical benefits at retirement. Effective December 31, 2003, the Company received from the Division of Insurance an allowance under Corrective Orders to account for the changes implemented as of January 1, 2004 as a permanent curtailment of the benefit, allowing the Company to reduce its prior service liability at December 31, 2003 from $64.1 million to $32.3 million (see Note 1A).

Effective December 31, 2004, the Company permanently eliminated all subsidies previously provided by the Company to its retirees for medical benefits. This resulted in a $32.3 million reduction in carried liabilities at December 31, 2004.

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

At December 31, 2004, unassigned surplus was reduced by nonadmitted asset values primarily related to deferred taxes and other assets of $841,100,544 and an unrealized foreign exchange loss of $5,519,042.

The Company has the following surplus notes issued and outstanding at December 31, 2004:

			Amounts in thousands				
Interest Rate/ Description	**Issue Date**	**Maturity Date**	**Par or Face Value**	**Carrying Value of Notes**	**Interest Paid 2004**	**Total Interest Paid**	**Accrued Interest 12/31/04**
9.15% 30-Year Notes	06/24/96	07/01/2026	$400,000	$399,123	$ 0	$220,312	$ 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	$346,258	$ 0

The unamortized discount at issuance has been charged against surplus. The unamortized discount amounted to $1,644,402 at December 31, 2004 and 2003.

All surplus notes were issued pursuant to Rule 144A of the Securities Act of 1933. The Fiscal Agent for all surplus notes is BNY Midwest Trust Company, Chicago, 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. The Company is not restricted from incurring any future indebtedness, policy claims or prior claims. Under statutory accounting, the surplus notes are not part of the legal liabilities of the Company. 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, as described in the related Offering Circular, 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 Division of Insurance (the "Director"), redeem them in whole but not in part.

Each payment of interest on and repayment of principal of the surplus notes may be made only with the prior approval of the Director, which approval will only be granted if, in the judgment of the Director, 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. In addition, any payment of interest on or repayment of principal or redemption of the surplus notes would reduce the

NOTES TO FINANCIAL STATEMENTS

policyholders' surplus of the Company. The Director has denied the Company's 2003 and 2004 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). The amount of interest due and not paid plus interest that is not accrued for at December 31, 2004 is $123,300,000.

14. CONTINGENCIES

A. Contingent Commitments

Capital Commitments

In November of 2004, the Company agreed to sell its residential mortgage portfolio. During the due diligence period, several deficiencies in documentation were discovered requiring 26 loans to be excluded from the sale. Seven of the 26 loans which had an aggregate outstanding principal of approximately $1.5 million were completely written-off in December of 2004 and no new mortgage loans were made during 2004. The maximum percentage of a loan to the value of the security at the time of the loan was 90%. As of December 31, 2004, there are no mortgages with interest more than 180 days overdue, and none where interest rates have been reduced. The Company has not paid any taxes, assessments, or other advances on account of mortgage loans outstanding which are not included in the mortgage loan balance.

Subsidiary Guarantees

The Company has provided guarantees for the benefit of certain of its subsidiaries. (See Note 10).

Securities on Deposit/Encumbered Assets

Approximately $1.5 billion of the Company's invested assets at December 31, 2004 are encumbered by being on deposit or held in trust or escrow arrangements, compared with $1.7 billion one year earlier. The majority of the encumbrances, approximately $1.0 billion, are deposits with state insurance departments, with California accounting for the majority of that amount, or $822.9 million, at December 31, 2004.

Approximately $409.5 million of the Company's assets at December 31, 2004 are in a collateral trust for the benefit of or are otherwise pledged to Berkshire affiliates. (See Note 10). This amount reflects a $68.6 million reduction from a year earlier, as the majority of these encumbered assets are subject to release to the Company each quarter as claim payments are made on policies to which the cut-through agreements from National Indemnity Company and National Fire & Marine Insurance Company are attached.

Approximately $25.0 million of the Company's assets at December 31, 2004 are in a collateral trust for the benefit of Broadspire as collateral for obligations under the transaction agreements related to the sale of NATLSCO in July 2003. Other transaction-related collateral trusts and escrow arrangements encumber another $10.8 million of the Company's assets at December 31, 2004. (See Note 10).

More significant, the Company is contingently liable to provide up to an estimated additional $30.4 million in collateral due to ratings triggers in similar reinsurance agreements where it is a reinsurer. Of this amount, approximately $4.6 million has been funded with assets of the purchaser of the Equus Re division (Alea Bermuda, Ltd. and affiliates) for assumed business written by the Company after the 1999 sale which is 100% reinsured by (retroceded to) Alea Bermuda.

As of December 31, 2004, AMICO as successor by mergers to Eagle Pacific and AMPICO has deposited with four of its reinsureds AMICO assets in the approximate amount of $10 million as security under assumed reinsurance agreements dating back to before the Company acquired the Eagle subsidiary in 1998. Until November and December 2003, the security was in the form of letters of credit; however, when those letters of credit expired in late 2003, the subsidiary and the Company were unable to obtain letters of credit from any banks due to the Company's deteriorating financial condition. Of the assets on deposit, the reinsured (Manhattan Reinsurance Company, which is also in run-off status) is informally disputing the amount, seeking an increase of up to another $6.0 million.

Several years ago, the Company deposited securities in an escrow account to collateralize a bank loan to an independent insurance agency in Texas. These encumbered assets had a carrying value of $22.0 million at December 31, 2003. In late 2003, the Company recognized a $15.0 million charge related to this guarantee. In 2004, the Company repaid the agency's bank loan in the amount of approximately $20 million, receiving back from the bank the $22.0 million of encumbered assets. The Company also revised its agreements with the agency and received from the agency $5 million in cash plus a minority stock interest in the agency. With no surplus impact

NOTES TO FINANCIAL STATEMENTS

in 2004, the Company's liquidity in 2004 increased by approximately $12 million as a result of these repayments.

Approximately $4.8 million of the Company's invested assets at December 31, 2004 are in collateral trusts for the benefit of its reinsurers. (See Note 23).

Where required to post court bonds, including supersedes or appeal bonds, the Company, due to its financial condition, has had to post cash or other security totaling in most cases 100% of the bond. At December 31, 2004, the Company had pledged invested and other assets of approximately $53.4 million for such bonds, a majority of which are issued by a Berkshire affiliate.

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 2004 and prior. The Company's financial statements include provisions for all known assessments that are expected to be levied against the Company as well as an estimate of amounts (net of estimated future premium tax recoveries) that the Company believes it will be assessed in the future for which the insurance industry has estimated the cost to cover losses to policyholders. The Company is also contingently liable for any future guaranty fund assessments related to insolvencies of unaffiliated insurance companies, for which the insurance industry has been unable to estimate the cost to cover losses to policyholders. No specific amount can be reasonably estimated for such insolvencies as of December 31, 2004. As of December 31, 2004, the Company has accrued a liability of approximately $6.5 million for such assessments. The Company is seeking in various states waivers or deferrals of assessments. In 2003, the Company, recognizing that it was not able to write future business, wrote off a previously recorded receivable of $1.4 million for future premium tax offsets related to such assessments. The Company has established a liability for premium and loss based assessments of approximately $55.7 million as of December 31, 2004, compared with $49.8 million a year earlier.

C. Gain Contingencies

None.

D. All Other Contingencies

Ratings

As of December 31, 2004, A.M. Best had assigned the Company a D (poor) rating. In early 2005, the Company requested that A.M. Best cease rating the Company. 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- 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 attempted to continue marketing commercial insurance policies by providing certain of the policies with the benefit of cut-through agreements from National Indemnity Company. That proved unsuccessful. 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 and its Mexican insurance company subsidiary which was sold April 30, 2004. Since July 2003, the Company and most of its affiliates have been subject to Corrective Orders by the Division of Insurance not to write any new or renewal business except as necessary to comply with contractual commitments or as expressly permitted by the Division of Insurance.

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 risk-based capital 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 two years, the Company's level of capital and surplus has been at the "mandatory control level" under the risk-based capital rules. At this level, the Division of Insurance has substantial authority to exercise control over the Company and its affiliates. The Division of Insurance 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 Division of Insurance has discretion to allow the continued run-off.

NOTES TO FINANCIAL STATEMENTS

Exercising its supervisory authority, the Division of Insurance has issued Corrective Orders. As required, the Company in early 2003 proposed an RBC plan to address its RBC level. The Division of Insurance did not accept that plan, but required that the Company develop a commercial run-off plan based on the Company's results and financial condition at December 31, 2003.

On March 19, 2004, the Company and the other Illinois-domiciled Kemper Insurance Companies filed a commercial run-off plan with the Division of Insurance. On June 9, 2004, the Division of Insurance gave the Kemper Insurance Companies permission to proceed with the run-off plan as submitted. Details of the plan are confidential, pursuant to the state's risk-based capital statute. The plan is designed to help the Company meet its goal of resolving, to the maximum extent possible, all valid policyholder claims.

Risks and uncertainties involved in implementing the plan include the needs to achieve significant policy buybacks and novations, to conclude other surplus-enhancing transactions, to commute reinsurance agreements, to conclude 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, 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 plan will be successfully implemented.

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

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 Division of Insurance, pursuant to which the Company has ceased to write virtually all insurance business and is settling its liabilities under the administrative supervision of the Division of Insurance. The Company has also entered into consent agreements with certain states under which the Company agreed to cease writing business in those jurisdictions (including Michigan as mentioned above). In addition, regulatory agencies in Florida and Tennessee have sought to unilaterally suspend the Company's certificates of authority in those two states. The Company has resisted those unilateral actions as not being in the best interests of the Company's policyholders or claimants.

Management Changes

On August 5, 2004, the Company's acting president, acting chief executive officer, and acting chief financial officer, Michael A. Coutu, resigned, and the Company and Kenning Financial Advisors, LLC by mutual agreement terminated the contract under which Kenning had provided management services for Kemper's run-off planning and operations since October 2003. In connection with this termination, as of December 31, 2004, the Company's surplus increased by $10 million due to the release of the Company's obligation, originally accrued at December 31, 2003, to provide an indemnification trust in that amount for the benefit of Kenning and senior management.

The Company continues to implement steps set forth in the run-off plan substantially as previously submitted to the Division of Insurance. Two former members of the Kenning team, who had been serving as officers of the Company while providing services under the Kenning contract, then joined the Company as its chief operating officer and its chief transactional counsel, respectively, to assist in the Company's and its affiliates' ongoing run off. On October 12, 2004, the Company announced the election of an acting chief accounting officer. On January 7, 2005, the Company announced that its chief operating officer was elected by the board of directors to be the Company's president and chief executive officer.

Managing Surplus

The Company's operating and other expenses (including amortization of the discount on loss reserves) currently exceed operating revenue (investment income, earned premium, and other income) by approximately $12 million per month. In addition, in light of current market conditions

NOTES TO FINANCIAL STATEMENTS

and the Company's anticipated liquidity needs, management currently projects that the Company's investment portfolio return will be below the previously projected return of 3.1% over the time horizon of the run-off plan that runs through year-end 2006. In the second half of 2004, however, the Company successfully executed surplus-enhancing transactions that together produced benefits to surplus that more than covered the reduction in surplus caused by expenses exceeding revenues and by additions to loss reserves during the year. Primarily due to policy buybacks and novations, changes in pension and compensation plans (see Note 12), and opportunistic amendments to prior year renewal rights transactions (see Note 10), the surplus benefits totaled $368 million in the second half of 2004. Although involving use of significant liquidity (see *Managing Liquidity* below), policy buybacks and other settlements by the Company of liabilities for substantially less than carried reserves remain a primary focus of the Company's management and its run-off plan at this time.

During 2004, the Company added approximately $137 million to its reserves, net of reinsurance, and net of the 4.2% discount prescribed pursuant to an accounting practice from the Division of Insurance. This amount includes $86 million in additions to net reserves for assumed reinsurance liabilities. Despite the reserve strengthening during 2004 and the reserve additions of prior periods, there can be no assurance that additional material reserve strengthening will not be required in future periods.

At December 31, 2004, the Company's reported results show that its assets exceed its liabilities by $171.4 million, a $31.0 million decrease in surplus from the level reported one year earlier. Management believes that successful surplus-enhancing initiatives in 2005 can continue to offset the monthly surplus reductions caused by expenses exceeding revenues, although there can be no assurance that success will continue longer term at such levels or at any level. In addition, certain liquidity-enhancing transactions, such as potential reinsurance commutations, could adversely impact surplus, perhaps materially. The Company's year-end 2004 surplus reflected certain one-time events. Management remains opportunistic for transactions that can increase or maintain surplus and/or liquidity.

Gross liabilities owed to policyholders (loss and loss adjustment expenses) totaled approximately $6.6 billion at December 31, 2004. This amount was a decrease of more than $2 billion from the level of such liabilities at December 31, 2003, reflecting the Company's payments of claims and management of other liabilities, in part through policy buybacks. Policyholder liabilities, net of reinsurance and discount, totaled $2.8 billion at December 31, 2004, down from $3.8 billion at December 31, 2003.

Managing Liquidity

The Company's net cash outflows, consisting principally of claim payments (net of reinsurance collections and releases of encumbered assets from certain collateral trusts), exceed substantially its cash inflows resulting from investment income and the limited premium income the Company is receiving. Recognizing this, and the potential liquidity issues presented, the Company routinely updates its liquidity projections. The most recent projection, which assumes regular claims payment levels and regular collection of reinsurance recoverables, project the Company will have sufficient, unencumbered, liquid assets to be able to pay claims and other liabilities as they become due in the ordinary course through and after December 31, 2005, even if the Company does not commute any ceded reinsurance or obtain release of any excess collateral held in state deposits.

There are a number of factors, however, that could adversely affect the Company's liquidity position and its adequacy through the end of the year. Accelerated claim payments or imposition of requirements to secure future maturing 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 mature. As liquidity declines, there can be no assurance that formal proceedings would not be initiated by the Division of Insurance significantly before the Company's projected liquidity would reach zero.

The Company is addressing potential future liquidity challenges by taking a number of actions, including, but not limited to, seeking the release of what the Company believes is excess collateral held by various governmental agencies, merging subsidiaries, converting illiquid assets to liquid assets, continuing to collect on its reinsurance, and evaluating the possibility of reinsurance commutations. State, and to significantly lesser extents, foreign and the United States Department of Labor, deposits totaled $1,064,649,731 at December 31, 2004, of which the state of California held $822,904,793. The Company's run-off plan anticipates that portions of these deposits will be released as excess collateral as claims are paid and the remaining reserves are reduced. There are significant uncertainties with respect to the legal and regulatory issues related to releases of

NOTES TO FINANCIAL STATEMENTS

encumbered assets. While the Company is in discussions with various insurance regulators regarding release of portions of the deposits, the Company does not have any agreements with any of the parties to release any governmental deposits.

In the third quarter of 2004, the Company signed a definitive agreement, subject to final approvals and closing, to sell its home office complex in Long Grove, Illinois, and to lease back a fraction of that office space for the Company's current operations. In anticipation of the proposed sale terms, the Company recorded a reduction in the carrying value of the property and recognized an approximate $5.9 million surplus detriment in the third quarter. The sale is expected to close in early 2005, at which time the Company expects to receive a liquidity benefit of approximately $30 million from the sale.

Also to supplement liquidity, the Company during 2004 merged five of its subsidiaries into another wholly-owned subsidiary, AMICO. See Note 10. The liquidity benefits from the mergers include minor reductions in expenses from not needing to maintain corporate entities. They also include releases of certain state deposits, which releases totaled $5.3 million early in the fourth quarter. AMICO cedes 100% of its policy liabilities to the Company and therefore has no net liabilities to policyholders. As a result of the mergers, the Company and AMICO obtained approval from the Division of Insurance for AMICO to declare and pay to the Company an extraordinary dividend of approximately $161.7 million on December 31, 2004.

Prompt collection of reinsurance recoverables is a primary driver of the Company's liquidity at all times. Reinsurance provided approximately $1 billion of liquidity to the Company during 2004. Gross reinsurance recoverables totaled $3.3 billion at December 31, 2004 (net of a $150 million reinsurance provision - see Note 1), down from $3.8 billion at December 31, 2003, largely due to claim payments and the Company managing down its policyholder liabilities.

The Company is developing a strategy to evaluate certain reinsurance commutations that if executed could substantially increase liquidity. Reinsurance commutations, however, would be anticipated to decrease surplus, since commutations involve present value or other discounting in return for cash. Management remains focused on managing liquidity, surplus, and the balance between them.

Other

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

As described in Note 13, Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations, the Company issued $700 million in aggregate principal amount of surplus notes in 1996 and 1997. On March 20, 2003 and November 3, 2003, the Director of the Illinois Division of Insurance denied the Company's requests for payment of interest on the surplus notes due on June 1 and July 1, 2003 and on December 1, 2003 and January 1, 2004. Subsequent payments of interest on the surplus notes have also been prohibited by the Director. Following the March 20, 2003 denial, in June and July, 2003, several lawsuits were filed in the Circuit Court of Cook County, Illinois by certain current holders of surplus notes aggregating approximately $368 million and naming the Company, various directors or former directors of the Company and Kemper Commercial Insurance Company, a subsidiary of the Company, as defendants. One case was voluntarily dismissed by the plaintiff, and the other two were consolidated. This lawsuit alleges 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 alleges that the directors breached their fiduciary duties and committed corporate waste, and that the Company and Kemper Commercial Insurance Company engaged in a fraudulent conveyance. The complaint, among other things, seeks a declaratory judgment of the parties' rights, an injunction against further asset sales and monetary damages. The Company has not yet been served with a consolidated amended complaint, and accordingly, is not required to file an answer or a motion to dismiss. The Company intends to vigorously defend against this lawsuit.

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 in the financial condition of the Company.

NOTES TO FINANCIAL STATEMENTS

15.LEASES

The Company leases office space and equipment under various non-cancelable operating lease agreements. Rental expense for 2004 and 2003 was $15,116,062 and $23,961,783, respectively, net of costs shared in 2003 by the Company with AMM under the terms of the pooling agreement.

At December 31, 2004, the total aggregate minimum rental payments on operating leases is $38,137,910, and future minimum rental payments for the next six years are as follow:

(Dollars in thousands)

Year Ending December 31		Minimum Payments
2005	$	11,814
2006		8,707
2007		6,970
2008		5,354
2009		4,428
2010 and thereafter		865
	$	38,138

Certain rental commitments have renewal options extending through the year 2011. Some of these renewals are subject to adjustments in future periods.

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 A&H PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

None.

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

None.

20. SEPTEMBER 11 EVENTS

The terrorist attacks of September 11, 2001 resulted in a tremendous loss of life and property. In the past, insurance companies have incurred losses as a result of catastrophes such as earthquakes, hurricanes, and even other terrorist attacks. However, the September 11 events are unprecedented in the United States in terms of the magnitude of the losses incurred and the number of entities affected. For the year ended December 31, 2004, the Company's total incurred losses and LAE related to the September 11 events were as follows:

Gross losses and LAE incurred	$	226,263,515
Reinsurance losses and LAE ceded		(174,612,319)
Net losses and LAE incurred	$	51,651,196

The incurred losses are primarily attributable to the commercial multiple peril and other liability lines of business. As of December 31, 2004, the Company has recovered a total of $148.0 million from its reinsurers, against $182.8 million in total claim payments. As of December 31, 2004, approximately 75% of the Company's unsecured recoverables from all reinsurers, excluding the Company's participation in third-party pools, were from reinsurers rated A or better by A. M. Best Company or Standard & Poor's. Approximately 80% of the unsecured recoverables from reinsurers were rated A- or better by A. M. Best Company or Standard & Poor's. The Company continues to closely monitor its exposure to all reinsurers.

NOTES TO FINANCIAL STATEMENTS

21.OTHER ITEMS

Reconciliation of 2003 Audited Statutory Financial Statement to 2003 Annual Statement

Subsequent to the completion of the Company's 2002 Annual Statement, as filed with the Division of Insurance on or about March 1, 2003, the Company became aware of a number of facts that provided additional evidence with respect to conditions or circumstances that existed at the date of that filing. As a result, the Company's 2003 Statutory Annual Statement included different amounts from those filed in the Company's 2003 Audit Report as follows:

		Net loss
As filed in 2003 Annual Statement	$	(517,377,785)
Adjustments related to:		
Market value declines identified subsequent to year-end resulting in other-than-temporary impairment of securities:		
Bonds		10,563,044
Equity securities		7,227,150
Other-than-temporary impairments or adjustments related to new facts, circumstances or decisions made by the Company:		
Market for sale certain office buildings previously occupied by the Company		25,510,259
Abandonment of plans for water development joint venture project		29,346,776
Change in agreement with internet joint venture Partners		10,095,450
Other adjustments:		
Overaccrual related to incentive compensation		(10,280,198)
Misapplication of facts related to receivables		10,588,085
As filed in 2003 Audit Report	$	(434,327,219)

NOTES TO FINANCIAL STATEMENTS

The Company has recorded the above adjustments during 2003. Accordingly, these adjustments are included within the Company's 2003 Annual Statement whereas they were included in the Company's 2002 Audit Report.

22. EVENTS SUBSEQUENT

The Company has outstanding a loan to a former insurance agency. Carried at its full unpaid principal balance, $18.0 million at December 31, 2004, this loan is currently due March 31, 2005. The agency is negotiating for an extension to March 31, 2006.

23. REINSURANCE

A. Unsecured Reinsurance Recoverables

The Company has unsecured aggregate recoverables from outside reinsurers for losses paid, losses unpaid, loss adjustment expenses, and unearned premium that exceed 3% of the Company's policyholder surplus at December 31, 2004, with the following reinsurers (and related group members):

FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER		AGGREGATE RECOVERABLE (000 omitted)
36-0719665	8	19232	Allstate Insurance Co.	$	12,679
			8 Group Total		12,679
13-5124990	12	19380	American Home Assurance Co.		188
06-0384680	12	11452	Hartford Steam Boil Inspection & Insurance Co.		3,462
13-5540698	12	19429	Insurance Co. of the State of Pennsylvania		2,102
13-5616275	12	19453	Transatlantic Reinsurance Co.		63,676
			12 Group Total		69,428
06-0949141	31	33197	Cologne Reinsurance Co. of America		18
13-2673100	31	22039	General Reinsurance Corp.		135,950
47-6021331	31	20079	National Fire & Marine Insurance Co.		210,934
47-0355979	31	20087	National Indemnity Co.		12
13-1988169	31	34835	National Reinsurance Corp.		579
			31 Group Total		347,493
38-0855585	79	22012	Motors Insurance Corp.		8,339
			79 Group Total		8,339
06-0383750	91	19682	Hartford Fire Insurance Co.		18,368
			91 Group Total		18,368
47-0574325	98	32603	Berkley Insurance Co.		39,214
53-0067060	98	21784	Firemen's Insurance Co. of Washington D.C.		361
41-1232071	98	31003	Tri State Insurance Co. of Minnesota		287
			98 Group Total		39,862
39-0264050	111	21458	Employers Insurance of Wausau		7,802
04-1543470	111	23043	Liberty Mutual Insurance Co.		1,715
			111 Group Total		9,517
22-1964135	158	21105	North River Insurance Co.		2
47-0698507	158	23680	Odyssey America Reinsurance Co.		9,845
13-2781282	158	25070	Odyssey Reinsurance Corp.		32,195
			158 Group Total		42,042
36-2999370	164	36463	Discover Property & Casualty Insurance Co.		25
41-0406690	164	24767	St Paul Fire & Marine Insurance Co.		27,569
52-0515280	164	25887	United States Fidelity & Guaranty Co.		2,282
			164 Group Total		29,876

NOTES TO FINANCIAL STATEMENTS

FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER		AGGREGATE RECOVERABLE (000 omitted)
13-1675535	181	25364	Swiss Reinsurance America Corp.	$	254,356
06-0839705	181	82627	Swiss Reinsurance Life & Health America Inc.		3,551
16-0366830	181	22314	Underwriters Reinsurance Co.		24,568
			181 Group Total		282,475
75-0620550	215	19887	Trinity Universal Insurance Co.		59,953
			215 Group Total		59,953
36-2114545	218	20443	Continental Casualty Co.		29,271
13-5010440	218	35289	Continental Insurance Co.		16
13-1941984	218	20923	Continental Reinsurance Corp.		11
36-3976913	218	10071	Encompass Insurance Co. of America		530
			218 Group Total		29,828
41-0451140	229	67105	Reliastar Life Insurance Co.		107,351
			229 Group Total		107,351
48-0921045	350	39845	Employers Reinsurance Corp.		76,327
36-2667627	350	22969	GE Reinsurance Corp.		203,241
13-1941868	350	34207	Westport Insurance Corp		522
			350 Group Total		280,090
13-4924125	361	10227	American Re-Insurance Co.		279,036
			361 Group Total		279,036
74-0484030	408	60739	American National Insurance Co.		7,526
			408 Group Total		7,526
13-3071466	604	41343	Gerling America Insurance Co.		52
13-6107326	604	11266	Gerling Global Reinsurance Corp. - U.S. Branch		4
13-5009848	604	21032	Gerling Global Reinsurance Corp of America		21,634
			604 Group Total		21,690
95-2371728	626	22667	Ace American Insurance Co.		2,969
23-1740414	626	22705	Ace American Reinsurance Co.		1,661
06-0237820	626	20699	Ace Property & Casualty Insurance Co.		5,490
23-0723970	626	22713	Insurance Co. of North America		14,398
13-5481330	626	21121	Westchester Fire Insurance Co.		12
			626 Group Total		24,530
13-3029255	749	39322	General Security National Insurance Co.		4,707
75-1444207	749	30058	SCOR Reinsurance Co.		31,879
			749 Group Total		36,586
13-3594502	968	33022	AXA Corporate Solutions Insurance Co.		264
36-2994662	968	36552	AXA Corporate Solutions Reinsurance Co.		482
04-1590940	968	11835	AXA Re America Insurance Co.		6,437
			968 Group Total		7,183
22-2005057	1120	26921	Everest Reinsurance Co.		33,862
			1120 Group Total		33,862
					AGGREGATE

NOTES TO FINANCIAL STATEMENTS

FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER		RECOVERABLE (000 omitted)
04-1027270	1129	20613	American Employers Insurance Co.	$	266
13-2997499	1129	38776	Folksamerica Reinsurance Co.		9,228
			1129 Group Total		9,494
43-0990710	1279	11150	Arch Insurance Co.		1,102
06-1430254	1279	10348	Arch Reinsurance Co.		6,433
			1279 Group Total		7,535
75-6017952	1285	24554	X.L. Insurance America Inc.		16
13-1290712	1285	20583	X.L. Reinsurance America Inc.		26,073
			1285 Group Total		26,089
06-1117063	1314	34894	Trenwick America Reinsurance Corp.		93,748
			1314 Group Total		93,748
06-1022232	1325	24899	Alea North America Insurance Co.		11,256
51-0335732	1325	44776	Alea North American Specialty Insurance Co.		3,554
			1325 Group Total		14,810
06-1325038	3018	39136	Converium Reinsurance North America Inc.		174,494
			3018 Group Total		174,494
43-6028696	3321	22217	Gulf Insurance Co.		8,175
41-6009967	3321	24015	Northland Insurance Co.		1,017
06-0566050	3321	25658	Travelers Indemnity Co.		762
			3321 Group Total		9,954
13-3031176	3483	38636	Partner Reinsurance Co. of the U.S.		11,481
13-3531373	3483	10006	PartnerRe Insurance Co. of New York		356
			3483 Group Total		11,837
AA-9995013			Associated Aviation Underwriters		160,477
AA-3190450			Patriot Insurance Co Ltd.		35,704
44-0367450		66559	National Fidelity Life Insurance Co.		28,073
AA-9991444			Texas Workers Compensation		24,576
03-0331391		27955	Commercial Risk Re-Insurance Co.		19,310
AA-3190800			Alea Bermuda Ltd.		19,185
AA-1122000			Lloyd's of London (Authorized)		18,337
AA-1340125			Hannover Ruckversicherungs AG		15,309
23-2745904		10019	Overseas Partners U.S. Reinsurance Co.		10,370
			Security Mutual Casualty Co.		9,590
AA-1128020			Lloyd's Syndicate Number 2020		8,691
13-2918573		42439	TOA-Reinsurance Co. of America		7,654
AA-3190196			Seven Continents Insurance Co. Ltd. (The)		7,361
AA-9991160			New Jersey Unsatisfied Claim & Judgment Fund		6,595
AA-9995035			Mutual Reinsurance Bureau		6,473
41-1357750		10181	Workers Compensation Reinsurance Assn.		6,106
36-3155373		40398	American Fuji Fire & Marine Insurance Co.		5,651
AA-1340255			Wurttembergische Versicherung AG		5,525
Total Aggregate Reinsurance Recoverables in excess of 3% of the Company's Surplus				$	2,490,662

B. Reinsurance Recoverable 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 policyholder surplus.

NOTES TO FINANCIAL STATEMENTS

Name of Reinsurer	Total Amount in Dispute (including IBNR)	Notification	Arbitration	Litigation
Patriot Insurance Co. Ltd.	$ 41,139,209	0	0	41,139,209
Transatlantic Reinsurance Co.	15,445,237	8,691,233	6,754,003	
Front Range Insurance Co.	14,516,282	0	0	14,516,282
X.L. Reinsurance America Inc.	6,921,057	6,921,057	0	0
American Re-insurance Co.	5,130,624	5,130,624	0	0
Q.B.E Int'l Insurance Ltd.	4,748,435	0	4,748,435	0
Converium Reinsurance North America	4,299,269	4,299,269	0	0
Lloyd's Syndicate Number 2020	4,183,094	4,183,094	0	0
Employers Reinsurance Corp.	3,748,705	2,923,860	824,845	0
Everest Reinsurance Co.	3,248,062	0	3,248,062	0
Hannover Ruckversicherungs AG	3,109,308	3,109,308	0	0
Continental Casualty Co.	2,931,061	2,931,061	0	0
Wurttembergische Versicherung AG	2,769,057	2,769,057	0	0
Odyssey Reinsurance Corp.	2,711,557	720,721	1,990,836	0
Allstate Insurance Co.	2,641,423	0	2,641,423	0
Insurance Co. of North America	2,593,721	2,593,721	0	0
Underwriters Reinsurance Co.	2,503,136	2,503,136	0	0
Royal & Sun Alliance PLC	2,172,258	2,172,258	0	0
Zurich American Insurance Co. of Illinois	2,062,254	2,062,254	0	0
Employers Insurance of Wausau	1,957,362	0	1,957,362	0
GE Reinsurance Corp.	1,869,470	0	1,869,470	0
Lloyd's Syndicate Number 2791	1,715,634	88,850	1,626,785	0
Mutual Reinsurance Bureau	1,616,989	306,365	1,310,624	0
Folksamerica Reinsurance Co.	1,396,562	1,396,562	0	0
Lloyd's Syndicate Number 1212	1,196,952	1,196,952	0	0
Lloyd's of London (Authorized)	1,187,896	1,187,896	0	0
Liberty Mutual Insurance Co. (Mass) Ltd.	1,062,494	1,062,494	0	0
Lloyd's Syndicate Number 1241	982,261	982,261	0	0
National Casualty Co.	962,554	0	962,554	0
TOA-Reinsurance Co. of America	961,180	0	961,180	0
Argonaut Insurance Co.	928,770	928,770	0	0
Lloyd's Syndicate Number 250	884,777	884,777	0	0
Lloyd's Syndicate Number 183	676,520	676,520	0	0
Lloyd's Syndicate Number 510	579,037	579,037	0	0
Zurich Vers Ges AG	542,049	0	542,049	0
Swiss Reinsurance America Corp.	347,991	347,991	0	0
Northland Insurance Co.	282,721	282,721	0	0
St. Paul Fire & Marine Insurance Co.	258,828	258,828	0	0
Excess Insurance Co. Ltd.	237,505	237,505	0	0
General Reinsurance Corp.	231,471	231,471	0	0
Lloyd's Syndicate Number 138	177,717	177,717	0	0
Lloyd's Syndicate Number 727	177,717	177,717	0	0
American States Insurance Co.	151,945	151,945	0	0
Canadian Reinsurance Co.	74,453	74,453	0	0
Scor Reinsurance Co.	59,076	59,076	0	0
Factory Mutual Insurance Co.	57,501	57,501	0	0
American Employers Insurance Co.	56,237	56,237	0	0
Nationwide Mutual Insurance Co.	55,509	0	55,509	0
Q.B.E. Reinsurance Corp.	40,681	40,681	0	0
Lloyd's of London (Unauthorized)	31,478	31,478	0	0
Endurance Specialty Insurance Ltd.	17,885	17,885	0	0
Odyssey America Reinsurance Co.	15,202	15,202	0	0
Total	$147,668,170	62,519,544	29,493,136	55,655,491

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, 2004, is shown below:

	ASSUMED REINSURANCE		CEDED REINSURANCE		NET	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
	(1)	(2)	(3)	(4)	(5)	(6)
(i) Affiliates	$37,097,460	$18,427,897	$ 0	$ 0	$37,097,460	$18,427,897
(ii) All other	15,271,378	4,598,439	24,229,094	2,509,949	(8,957,716)	2,088,490
(iii) Total	$52,368,838	$23,026,336	$24,229,094	$ 2,509,949	$28,139,744	$20,516,387
(iv) Direct Unearned Premium Reserve: $14,968,774						

(2) Additional or return commission, predicated on loss experience or on any other form of profit sharing arrangements in this annual statement as a result of existing contractual arrangements is accrued as follows:

NOTES TO FINANCIAL STATEMENTS

	REINSURANCE			
	Direct (1)	Assumed (2)	Ceded (3)	Net (4)
(i) Contingent commission	$ 0	0	0	0
(ii) Sliding scale adjustments	0	0	0	0
(iii) Other profit commission arrangements	0	0	0	0
(iv) Total	$ 0	0	0	0

D. Uncollectible Reinsurance

During 2004, the Company wrote off $3,280,224 related to reinsurance paid loss recoverable balances with Reliance Insurance Company and related affiliates which was ordered into liquidation on October 3, 2001.

E. Commutation of Ceded Reinsurance

The Company has reported in its operations in the current year as a result of commutation of reinsurance with the companies listed below, amounts which are reflected as:

Agreement	Reinsurer	FEIN Code	NAIC Code	Amount	Reflected As
Commutation #1	PX Reinsurance Ltd.	AA-3194137	N/A	$ 425,000	Other Income
Commutation #2	PXRe Reinsurance Company	06-1206728	29807	(3,000,000)	Losses Incurred
Commutation #3	GE Reinsurance Corporation	36-2667627	22969	(1,825,469)	Losses Incurred
Commutation #4	Employers Reinsurance Corporation	48-0921045	39845	(195,712)	Losses Incurred
Commutation #5	National Workers Compensation Reinsurance Pool	AA-9992118	N/A	0	Other Income
Commutation #6	Illinois Workers Compensation Reinsurance Pool	AA-9991413	N/A	0	Other Income
Commutation #7	Massachusetts Workers Compensation Reinsurance Pool	AA-9991421	N/A	0	Other Income
Commutation #8	Arkansas Workers Compensation Reinsurance Pool	AA-9992112	N/A	0	Other Income
Total				$ (4,596,181)	

Intercompany commutations are discussed in Note 10.

NOTES TO FINANCIAL STATEMENTS

F. Retroactive Reinsurance

(1) As of December 31, 2004, the Company did not engage in any assumed retroactive reinsurance transactions. As of December 31, 2003, the Company did participate in one ceded retroactive reinsurance transaction which is referenced within this note as Ceded Contract #1. Ceded Contract #1 was 90% commuted in 2003 with one reinsurer remaining. That reinsurer was commuted in 2004. There are currently no retroactive reinsurance agreements. Contract #1 covered all lines of business and was referred as the "Aggregate Excess of Loss Reinsurance Treaty for 2000". For commutation details, see Note 23E: Commutation of Ceded Reinsurance.

	Ceded Contract #1 1/1/2000	Total
A – Reserves Transferred:		
Initial reserves	$ 17,510,300	$ 17,510,300
Adjustments – prior year(s)	(6,276,813)	(6,276,813)
Adjustments – current year	1,744,491	1,744,491
Current total	12,977,978	12,977,978
B – Consideration Paid or Received:		
Initial consideration	11,555,952	11,555,952
Adjustments – prior year(s)	669,945	669,945
Adjustments – current year	–	–
Current total	12,225,897	12,225,897
C – Paid Losses Reimbursed or Recovered:		
Prior year(s)	10,110,139	10,110,139
Current year	–	–
Current total	10,110,139	10,110,139
D – Special Surplus from Retroactive Reinsurance:		
Initial surplus gain or loss	5,954,348	5,954,348
Adjustments – prior year(s)	(6,946,758)	(6,946,758)
Adjustments – current year	1,744,491	1,744,491
Current year restricted Surplus	–	–
Cumulative total transferred to unassigned funds	$ 752,081	$ 752,081

E – Included in the summary totals above are the following reinsurers with their respective ceded reserve amounts currently transferred:

Ceded Contract	Covered Business	Reinsurer	FEIN Code	NAIC Code	Participation Percentage	Ceded Amount
Contract #1	All Lines	PXRE Reinsurance Co.	AA-3194137	N/A	100.00%	$12,977,978
Total						$12,977,978

F – As of December 31, 2004 the Retroactive agreement had been commuted so it did not have any paid loss recoverables.

G. Reinsurance Accounted for as a Deposit

The Company entered into various reinsurance agreements in previous years which were determined to be of a deposit type nature in the fourth quarter of 2002. As of December 31, 2004, the Company had a total remaining deposit balance of $43,011,000 after taking into account interest income deposits and cash recoveries, as follows:

(000's Omitted)	Contract #1	Contract #2	Total
Effective Date	11/1/2000	11/1/1999	
Effective Yield	5.64%	9.12%	
2000:			
Initial payment	$ 22,007	0	22,007

NOTES TO FINANCIAL STATEMENTS

Cash deposits	0	0	0
Interest income	124	0	124
Cash recoveries	(29)	0	(29)
Deposit balance	$ 22,102	0	22,102
2001:			
Initial payment	$ 0	0	0
Cash deposits	20,976	3,887	24,863
Interest income	618	240	858
Cash recoveries	(1,538)	(1,454)	(2,992)
Deposit balance	$ 42,158	2,673	44,831
2002:			
Initial payment	$ 0	0	0
Cash deposits	22,411	0	22,411
Interest income	1,047	290	1,337
Cash recoveries	(6,235)	(967)	(7,202)
Deposit balance	$ 59,381	1,996	61,377
2003:			
Initial payment	$ 0	0	0
Cash deposits	765	0	765
Interest income	7,342	114	7,456
Cash recoveries	(13,870)	(538)	(14,408)
Deposit balance	$ 53,618	1,572	55,190
2004:			
Initial payment	$ 0	0	0
Cash deposits	206	0	206
Interest income	1,954	0	1,954
Cash recoveries	(14,339)	0	(14,339)
Deposit balance	$ 41,439	1,572	43,011

24. RETROSPECTIVELY RATED CONTRACTS & CONTRACTS SUBJECT TO REDETERMINATION

The amount shown under the statutory caption “accrued retrospective premiums” represents accrued dividend recalls, net of a valuation reserve, which totaled $107,837,509 and $157,532,537 at December 31, 2004 and 2003, respectively.

The valuation reserve is equal to 10% of the dividend recalls not offset by liabilities to the same policyholder (other than loss and loss expense reserves) or for which the Company holds acceptable collateral and totaled $4,809,459 and $6,911,811 at December 31, 2004 and 2003, respectively.

25. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

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

		2004		2003
		(in thousands)		
Balance as of January 1, net of reinsurance recoverables of $3,750,385 in 2004 and $3,193,365 in 2003	$	3,823,969		3,502,137
Incurred related to:				
Current accident year		99,461		532,892
Prior accident years		116,159		(579,945)
Total incurred		215,620		(47,053)
Paid related to:				
Current accident year		(48,617)		81,341
Prior accident years		(1,231,940)		287,544
Total paid		(1,280,557)		368,885
Balance as of December 31, net of reinsurance recoverables of $3,065,093 in 2004 and $3,750,385 in 2003	$	2,759,032		3,823,969

NOTES TO FINANCIAL STATEMENTS

The incurred loss and LAE related to prior accident years increased on a net basis by $111.6 million in 2004 and decreased by $(579.9) million in 2003. The prior year development in 2004 is comprised of $146 million of favorable development related to commutation, novation, and buyback activity. In addition, the Company recorded $258 million of adverse loss and LAE development, including an expected amortization of discount of $144 million.

26. INTERCOMPANY POOLING ARRANGEMENTS

The Company is the lead company of the group of affiliated and associated companies that have operated under the trade name of the Kemper Insurance Companies. The significant majority of the business written by member insurance companies of the Group 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, 2004 and 2003, the net reserves at each of AMICO and AMM are zero. Loss and loss expense reserves for the Group were analyzed in the aggregate for all companies and allocated to certain Company subsidiaries based on the business retained within those companies.

27.STRUCTURED SETTLEMENTS

A. To discharge certain insurance claim liabilities, the Company has purchased structured settlement annuities with the claimant as payee. The aggregate December 31, 2004 value of loss reserves eliminated by the purchase of these annuities was $140,010,686. The Company remains contingently liable should the issuers of the annuities fail to perform.

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.

Carrier	Location	LMC Reportable Amounts
SAFECO Life Insurance Co.	Seattle, WA	$35,220,137
United Pacific Life Insurance Co.	Seattle, WA	23,504,502
First Colony Life Insurance Co.	Lynchburg, VA	23,440,930
Federal Home Life Insurance Co.	Richmond, VA	16,826,917
Metropolitan Life Insurance Co.	New York, NY	11,841,978
Prudential Life Insurance Co.	Newark, NJ	4,123,960
Transamerica Occidental Life Insurance Co.	Cedar Rapids, IA	3,458,229
Presidential Life Insurance Co.	Nyack, NY	2,991,706
Manufacturers Life of Canada	Toronto, ON	2,061,665
Charter Security Life Insurance Company	Hartford, CT	2,037,491

28.HEALTH CARE RECEIVABLES

None.

29.PARTICIPATING POLICIES

None.

30.PREMIUM DEFICIENCY RESERVES

As of December 31, 2004, the Company had liabilities of $5,044,234 related to premium deficiency reserves. The Company used an offset of $4,337,408 for anticipated investment based on an interest rate of 4.2% when calculating its premium deficiency reserves.

31.HIGH DEDUCTIBLES

As of December 31, 2004, the amount of reserve credits recorded for high deductibles on unpaid workers compensation claims was $1,698,011,809, and the amount billed and recoverable on paid claims was $68,208,167. There are no reserve credits recorded for high deductibles on unpaid non-workers compensation claims.

NOTES TO FINANCIAL STATEMENTS

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

As previously discussed in Note 1, the Division of Insurance has prescribed the Company to discount all its loss and loss adjustment expense 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, 2004 is $761,185,152, of which $187,534,607 is for tabular discount on 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 1989/1991 United States Decennial Life Tables for Female and Male Population at 3.5%, except for cases from Massachusetts, New Jersey, and New York. The Company discounts cases from Massachusetts using the 1979/1981 United States Decennial Life Tables for Total Population at 3.5% adjusted for injured workers' mortality. New Jersey cases use the 1989/1991 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.

(000's Omitted) **Tabular Discount** Included in Schedule P, Part 1					
Line of Business	Case	IBNR	Total		
Workers' Compensation	$ 0	187,535	187,535		
Non-Tabular Discount					
Line of Business	Case	IBNR	Defense & Cost Containment	Adjusting & Other Expense	Total
Homeowners/Farmowners	0	773	0	0	773
Private Passenger Auto Liability/Medical	0	6,746	0	0	6,746
Commercial Auto/Truck Liability/Medical	0	16,430	0	0	16,430
Workers' Compensation	0	332,220	0	0	332,220
Commercial Multi Peril	0	41,315	0	0	41,315
Medical Malpractice - occurrence	0	3	0	0	3
Medical Malpractice - claims-made	0	421	0	0	421
Specialty Liability	0	1,497	0	0	1,497
Other Liability - occurrence	0	121,559	0	1,245	122,804
Other Liability - claims-made	0	13,443	0	0	13,443
Special Property	0	1,247	0	0	1,247
Auto Physical Damage	0	(9)	0	0	(9)
Fidelity/Surety	0	2,150	0	0	2,150
Other (including Credit, A&H)	0	3,129	0	0	3,129
Reinsurance Nonproportional Assumed Property	0	34,311	0	0	34,311
Products Liability - occurrence	0	(2,824)	0	0	(2,824)
Products Liability - claims-made	0	(5)	0	0	(5)
Total	0	572,406	0	1,245	573,651
Grand Total	$ 0	759,940	0	1,245	761,185

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:

Gross of Reinsurance (000 omitted)	2000	2001	2002	2003	2004
Beginning reserves	$ 119,185	$113,347	$763,742	$767,234	$ 799,587
Codification adjustment at 1/1/01	0	200,735	0	0	0
Incurred losses and LAE	25,101	515,898	54,608	113,263	(111,910)
Calendar year payments for					
Losses and LAE	(30,939)	(66,238)	(51,116)	(80,910)	(100,645)
Ending asbestos related loss reserves	$ 113,347	$763,742	$767,234	$799,587	$ 587,032

Net of Reinsurance (000 omitted)	2000	2001	2002	2003	2004
Beginning reserves	$ 69,690	$77,841	$382,891	$390,094	$ 443,809
Codification adjustment at 1/1/01	0	154,566	0	0	0
Incurred losses and LAE	43,183	199,092	34,448	29,232	(86,693)
Calendar year payments for					
losses and LAE	(35,032)	(48,608)	(27,245)	24,483	(82,316)
Ending asbestos related loss reserves	$ 77,841	$382,891	$390,094	$443,809	$ 274,800

The total asbestos related loss reserves at December 31, 2004 include IBNR reserves in the amount of $98,326,000 gross of reinsurance and $43,943,000 net of reinsurance. These IBNR reserves and the comparable amounts for prior years cover both losses and defense and cost containment expenses. The Company also includes adjusting and other expenses in the amounts shown above.

The asbestos related loss reserves stated above are not discounted. Pursuant to a prescribed accounting practice (see Note 1), the amount of the discount on reserves at December 31, 2004 is $94,205,000 gross of reinsurance and $94,205,000 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:

Gross of Reinsurance (000 omitted)	2000	2001	2002	2003	2004
Beginning reserves	$ 163,118	$92,088	$105,488	$155,319	$147,011
Codification adjustment at 1/1/01	0	114,385	0	0	0
Incurred losses and LAE	5,088	(32,006)	54,551	(2,506)	3,979
Calendar year payments for					
losses and LAE	(76,118)	(68,979)	(4,720)	(5,802)	(47,098)
Ending environmental loss reserves	$ 92,088	$105,488	$155,319	$147,011	$103,892

Net of Reinsurance (000 omitted)	2000	2001	2002	2003	2004
Beginning reserves	$113,292	$59,704	$69,188	$104,946	$125,862
Codification adjustment at 1/1/01	0	88,076	0	0	0
Incurred losses and LAE	(22,118)	(38,247)	29,244	(3,068)	(6,290)
Calendar year payments for					
losses and LAE	(31,470)	(40,345)	6,514	23,984	(31,262)
Ending environmental loss reserves	$ 59,704	$69,188	$104,946	$125,862	$ 88,310

The total environmental loss reserves at December 31, 2004 include IBNR reserves in the amount of $43,828,000 gross of reinsurance and $47,624,000 net of reinsurance. These IBNR reserves and the comparable amounts for prior years cover both losses and defense and cost containment expenses. The Company also includes adjusting and other expenses in the amounts shown above.

The environmental related loss reserves stated above are not discounted. Pursuant to a prescribed accounting practice (see Note 1), the amount of the discount on reserves at December 31, 2004 is $16,838,000 gross of reinsurance and $16,838,000 net of reinsurance.

34.SUBSCRIBER SAVINGS ACCOUNT

None.

35.MULTIPLE PERIL CROP INSURANCE

None.

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	Gross Investment Holdings 2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	Admitted Assets as Reported in the Annual Statement 4 Percentage
1. Bonds:				
1.1 U.S. Treasury securities	788,788,017	28.984	788,788,017	28.984
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies		0.000		0.000
1.22 Issued by U.S. government sponsored agencies	103,532,440	3.804	103,532,440	3.804
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)	11,936,505	0.439	11,936,505	0.439
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	151,751	0.006	151,751	0.006
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations		0.000		0.000
1.43 Revenue and assessment obligations	49,206,190	1.808	49,206,190	1.808
1.44 Industrial development and similar obligations		0.000		0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	3,030,861	0.111	3,030,861	0.111
1.512 Issued or guaranteed by FNMA and FHLMC	12,869,513	0.473	12,869,513	0.473
1.513 All other		0.000		0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	137,425,126	5.050	137,425,126	5.050
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521		0.000		0.000
1.523 All other	2,000,000	0.073	2,000,000	0.073
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	457,979,482	16.828	457,979,482	16.828
2.2 Unaffiliated foreign securities	19,846,895	0.729	19,846,895	0.729
2.3 Affiliated securities	17,989,668	0.661	17,989,668	0.661
3. Equity interests:				
3.1 Investments in mutual funds		0.000		0.000
3.2 Preferred stocks:				
3.21 Affiliated		0.000		0.000
3.22 Unaffiliated	68,030	0.002	68,030	0.002
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated		0.000		0.000
3.32 Unaffiliated	314,123	0.012	314,123	0.012
3.4 Other equity securities:				
3.41 Affiliated	105,837,000	3.889	105,837,000	3.889
3.42 Unaffiliated	2,150,323	0.079	2,150,323	0.079
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated	27,545,265	1.012	27,545,265	1.012
3.52 Unaffiliated	3,625,106	0.133	3,625,106	0.133
4. Mortgage loans:				
4.1 Construction and land development		0.000		0.000
4.2 Agricultural		0.000		0.000
4.3 Single family residential properties	1,835,467	0.068	1,835,467	0.068
4.4 Multifamily residential properties		0.000		0.000
4.5 Commercial loans		0.000		0.000
4.6 Mezzanine real estate loans		0.000		0.000
5. Real estate investments:				
5.1 Property occupied by the company		0.000	0	0.000
5.2 Property held for the production of income (includes $ .... of property acquired in satisfaction of debt)		0.000	0	0.000
5.3 Property held for sale ($ .... including property acquired in satisfaction of debt)	34,965,386	1.285	34,965,386	1.285
6. Policy loans		0.000		0.000
7. Receivables for securities	2,405,799	0.088	2,405,799	0.088
8. Cash, cash equivalents and short-term investments	937,981,796	34.466	937,981,796	34.466
9. Other invested assets		0.000		0.000
10. Total invested assets	2,721,484,743	100.000	2,721,484,743	100.000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

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

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

If not previously filed, furnish herewith a certified copy of the instrument as amended.

3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2000

3.2 State the as of date 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. 12/31/2000

3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 11/18/2003

3.4 By what department or departments? Delaware, Illinois, Mississippi, and Nevada

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? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.) Yes [X] No [ ]

6.2 If yes, give full information Information is provided in financial note 14D in the management overview section.

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 or 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 location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC) and identify the affiliate's primary federal regulator.]

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

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?

KPMG LLP, Peat Marwick Plaza, 303 East Wacker Drive, Chicago, Illinois, 60601-9973

10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?

Frederick O. Kist, FCAS, MAAA, Senior Vice President and Actuary, Lumbermens Mutual Casualty Company, Long Grove, Illinois 60049-0001

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

11.1 What changes have been made during the year in the United States Manager or the United States Trustees of the reporting entity?

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

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

11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] NA [ ]

BOARD OF DIRECTORS

12. 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 [ ]

13. 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 [ ]

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

FINANCIAL

15.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

15.11 To directors or other officers $ 0

15.12 To stockholders not officers $ 0

15.13 Trustees, supreme or grand (Fraternal only) $ 0

15.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):

15.21 To directors or other officers $ 0

15.22 To stockholders not officers $ 0

15.23 Trustees, supreme or grand (Fraternal only) $ 0

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

16.2 If yes, state the amount thereof at December 31 of the current year:

16.21 Rented from others $

16.22 Borrowed from others $

16.23 Leased from others $

16.24 Other $

Disclose in Notes to Financial the nature of each obligation.

17.1 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]

17.2 If answer is yes,

17.21 Amount paid as losses or risk adjustment $

17.22 Amount paid as expenses $

17.23 Other amounts paid $

GENERAL INTERROGATORIES

INVESTMENT

18. List the following capital stock information for the reporting entity:

Class	1 Number of Shares Authorized	2 Number of Shares Outstanding	3 Par Value Per Share	4 Redemption Price if Callable	5 Is Dividend Rate Limited?	6 Are Dividends Cumulative?
					Yes No	Yes No
Preferred					[ ] [ ]	[ ] [ ]
Common				XXX	XXX XXX	XXX XXX

19.1. Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits? Yes [X] No [ ]

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

20.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on the Schedule E - Part 3 - Special Deposits; or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 16.1) Yes [ ] No [X]

20.2 If yes, state the amount thereof at December 31 of the current year:

20.21	Loaned to others	$
20.22	Subject to repurchase agreements	$
20.23	Subject to reverse repurchase agreements	$
20.24	Subject to dollar repurchase agreements	$
20.25	Subject to reverse dollar repurchase agreements	$
20.26	Pledged as collateral	$
20.27	Placed under option agreements	$
20.28	Letter stock or other securities restricted as to sale	$
20.29	Other	$

20.3 For category (20.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

21.2 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.

22.1 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]

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

GENERAL INTERROGATORIES

INVESTMENT

23. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 – General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? .... Yes [X] No [ ]

23.01 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 Midwest Trust Company	209 W. Jackson Blvd., Suite 800, Chicago, IL 60606

23.02 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)	2 Complete Explanation(s)

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year? .... Yes [ ] No [X]

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

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

23.05 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	2 Address

24.1 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]

24.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
9999999. TOTAL		0

24.3 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

INVESTMENT

25. 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 (+)
25.1 Bonds	2,279,800,864	2,249,433,298	(30,367,566)
25.2 Preferred stocks	68,030	105,623	37,593
25.3 Totals	2,279,868,894	2,249,538,921	(30,329,973)

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

See Footnote 5

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

26.2 If no, list the exceptions:

OTHER

27.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any? $ 1,144,966

27.2 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
American Insurance Association	630,083

28.1 Amount of payments for legal expenses, if any? $ 10,750,659

28.2 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
Stroock & Stroock & Lavan	2,756,632

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

29.2 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

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [ ] No [X]

1.2 If yes, indicate premium earned on U. S. business only $

1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? $

1.31 Reason for excluding

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. $

1.5 Indicate total incurred claims on all Medicare Supplement Insurance. $

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	$ 2,507	$ 2,306
2.2	Premium Denominator	$ 59,809,702	$ 398,380,309
2.3	Premium Ratio (2.1/2.2)	0.000	0.000
2.4	Reserve Numerator	$ 31,787,732	$ 41,451,851
2.5	Reserve Denominator	$ 2,882,933,307	$ 4,003,599,916
2.6	Reserve Ratio (2.4/2.5)	0.011	0.010

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?

The Company purchased Workers' Compensation Catastrophe Excess of Loss reinsurance for the period July 1, 2003 through 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 2004 as a result of the run-off of the Company. It was no longer necessary 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 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 it s exposure to unreinsured catastrophic loss.

The Company purchased per risk excess of loss reinsurance on a risks attaching basis to protect against the risk of loss arising from single large loss occurrences.

7.1 Has this reporting entity reinsured any risk with any other entity under a quota share reinsurance contract which includes a provision which would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss ratio cap, an aggregate limit or any similar provision)? Yes [X] No [ ]

7.2 If yes, indicate the number of reinsurance contracts containing such provisions: 1

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. 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 [ ] NA [ ]

10.1 Has this reporting entity guaranteed policies issued by any other entity and now in force? Yes [X] No [ ]

10.2 If yes, give full information

The Company guaranteed the minimum capital and surplus requirements under state law for 2 affilates, Kemper Casualty Insurance Company and Specialty Surplus Insurance Company. The Company also guaranteed the obligations under policies issued on and after January 1, 2002 by Kemper Societe Anonyme.

11.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 12.3 of the assets schedule, Page 2, state the amount of corresponding liabilities recorded for:

11.11 Unpaid losses $ 0

11.12 Unpaid underwriting expenses (including loss adjustment expenses) $ 0

11.2 Of the amount on Line 12.3 of the assets schedule, Page 2, state the amount which is secured by letters of credit, collateral and other funds. $ 69,997,576

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

11.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:

11.41 From 0.0 %

11.42 To 0.0 %

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

11.6 If yes, state the amount thereof at December 31 of the current year:

11.61 Letters of Credit $ 2,757,905,586

11.62 Collateral and other funds $ 449,480,884

12.1 What amount of installment notes is owned and now held by the reporting entity? $ 0

12.2 Have any of these notes been hypothecated, sold or used in any manner as security for money loaned within the past year? Yes [ ] No [X]

12.3 If yes, what amount? $

13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): $ 20,000,000

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 this amount. 1

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

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:
The ceded premium and coverage is allocated proportionally amoung cedants on the basis of the 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 writer agreements? Yes [X] No [ ]

14.5 If answer to 14.4 is no, please explain:

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

15.2 If yes, give full information

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

16.11 Name of real estate holding company LGA-17 & Delta Wetlands Joint Venture

16.12 Number of parcels involved 2

16.13 Total book/adjusted carrying value $ 7,898,076

16.2 If yes, provide explanation:

17.1 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
17.11 Home	$ 20,452	$ 14,454	$ 707	$ 199,818	$ 16,332
17.12 Products	$ 3,003,320	$ 5,897,608	$ (741,723)	$ 1,833,458	$ 3,837,255
17.13 Automobile	$	$	$	$	$
17.14 Other*	$	$	$	$	$

* Disclose type of coverage:

FIVE-YEAR HISTORICAL DATA

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

	1 2004	2 2003	3 2002	4 2001	5 2000
Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	27,799,424	629,763,302	3,129,414,870	3,054,037,377	2,626,081,524
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	873,033	214,257,216	510,450,126	850,043,494	512,874,762
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	(1,339,063)	231,115,268	668,256,584	640,146,772	648,398,080
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	19,548,881	(17,550,167)	243,336,275	214,488,738	159,854,269
5. Non-proportional reinsurance lines (Lines 30, 31 & 32)	(1,267,149)	9,763,406	38,907,249	33,314,009	30,252,004
6. Total (Line 34)	45,615,126	1,067,349,025	4,590,365,104	4,792,030,390	3,977,460,639
Net Premiums Written (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	(14,821,429)	268,603,498	415,341,865	1,167,384,721	1,387,976,269
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	(1,679,743)	48,122,517	138,217,595	282,553,770	302,662,763
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,825,143	33,750,795	124,292,413	357,657,074	386,694,976
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	7,973,776	(112,873,230)	19,140,857	71,416,424	65,327,990
11. Non-proportional reinsurance lines (Lines 30, 31 & 32)	(1,975,020)	2,962,535	635,532	1,929,596	3,623,143
12. Total (Line 34)	(8,677,273)	240,566,115	697,628,262	1,880,941,585	2,146,285,141
Statement of Income (Page 4)					
13. Net underwriting gain (Loss) (Line 8)	(227,357,285)	101,824,464	(238,226,578)	(219,529,138)	(61,036,076)
14. Net investment gain (Loss) (Line 11)	108,977,098	(389,652,336)	(114,325,621)	125,928,176	279,802,420
15. Total other income (Line 15)	14,797,895	(239,745,941)	152,144,259	167,276,952	8,290,735
16. Dividends to policyholders (Line 17)	(49,931,358)	16,972,607	55,400,810	67,548,338	135,631,513
17. Federal and foreign income taxes incurred (Line 19)	12,317,644	(27,168,635)	(49,888,771)	(65,343,362)	39,711,988
18. Net income (Line 20)	(65,968,578)	(517,377,785)	(205,919,979)	71,471,014	51,713,578
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	3,776,440,507	5,229,941,637	6,071,135,836	7,091,939,335	7,487,415,126
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 12.1)	109,557,218	164,086,680	356,034,235	777,405,905	323,877,293
20.2 Deferred and not yet due (Line 12.2)	90,367,442	145,990,451	678,274,662	540,729,268	805,877,167
20.3 Accrued retrospective premiums (Line 12.3)	107,837,509	157,532,537	123,216,344	103,691,449	105,384,526
21. Total liabilities excluding protected cell business (Page 3, Line 24)	3,605,005,627	5,027,515,672	5,374,289,793	5,825,363,930	5,674,144,795
22. Losses (Page 3, Lines 1 and 2)	2,099,231,683	3,164,243,055	2,744,057,644	2,498,853,925	2,305,711,636
23. Loss adjustment expenses (Page 3, Line 3)	742,764,295	729,758,862	771,410,165	728,701,033	898,256,841
24. Unearned premiums (Page 3, Line 9)	43,108,518	111,595,492	269,409,686	969,717,025	1,009,504,613
25. Capital paid up (Page 3, Lines 28 & 29)	0	0	0	0	0
26. Surplus as regards policyholders (Page 3, Line 35)	171,434,880	202,425,965	696,846,043	1,266,575,405	1,813,270,331
Risk-Based Capital Analysis					
27. Total adjusted capital	171,434,880	182,973,965	507,183,043	1,058,470,405	1,693,839,331
28. Authorized control level risk-based capital	390,670,561	545,728,319	610,695,127	481,424,171	373,272,222
Percentage Distribution of Cash and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
29. Bonds (Line 1)	58.2	41.9	34.0	69.0	63.1
30. Stocks (Lines 2.1 & 2.2)	4.0	7.1	31.6	17.6	18.3
31. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.1	0.4	1.3	1.3	0.6
32. Real estate (Lines 4.1, 4.2 & 4.3)	1.3	1.0	2.6	2.3	2.1
33. Cash and short-term investments (Line 5)	34.5	46.9	26.6	5.0	12.0
34. Contract loans (Line 6)	0.0		XXX	XXX	XXX
35. Other invested assets (Line 7)	1.9	2.6	3.8	4.9	3.8
36. Receivable for securities (Line 8)	0.1	0.1	0.0	0.0	0.1
37. Aggregate write-Ins for invested assets (Line 9)	0.0	0.0	0.0	0.0	0.0
38. Cash and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
39. Affiliated Bonds (Schedule D, Summary, Line 25, Col. 1)	0	0	0	0	0
40. Affiliated preferred stocks (Schedule D, Summary, Line 39, Col. 1)	0	0	3,116,162	(17,383)	8,634,787
41. Affiliated common stocks (Schedule D, Summary, Line 53, Col. 2)	105,837,000	260,674,361	1,280,052,573	822,326,498	955,863,556
42. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 11)	0	0	0	0	0
43. Affiliated mortgage loans on real estate		0	0	0	0
44. All other affiliated		0	0	0	0
45. Total of above Lines 39 to 44	105,837,000	260,674,361	1,283,168,735	822,309,115	964,498,343
46. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 45 above divided by Page 3, Col. 1, Line 35 x 100.0)	61.7	128.8	184.1	64.9	53.2

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2004	2 2003	3 2002	4 2001	5 2000
Capital and Surplus Accounts (Page 4)					
47. Net unrealized capital gains (Losses) (Line 23)	(22,252,837)	107,581,822	(178,437,296)	261,845,166	(332,783,385)
48. Dividends to stockholders (Line 34)	0	0	0	0	0
49. Change in surplus as regards policyholders for the year (Line 37)	(30,991,085)	(494,420,078)	(569,729,362)	(546,694,926)	(591,122,908)
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
50. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	928,545,629	872,848,164	1,602,451,470	1,545,234,760	1,451,487,070
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	17,434,877	170,514,662	221,615,571	501,788,118	335,529,121
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	108,880,809	382,980,743	420,217,007	458,460,802	537,230,998
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	88,488,799	232,581,726	110,953,811	87,065,980	57,719,817
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	90,414,974	27,030,651	19,227,534	15,066,279	24,675,159
55. Total (Line 34)	1,233,765,088	1,685,955,946	2,374,465,393	2,607,615,939	2,406,642,165
Net Losses Paid (Page 9, Part 2, Col. 4)					
56. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	793,516,536	(429,172,796)	866,964,638	985,881,127	937,866,422
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	10,622,731	4,758,282	103,134,158	163,131,344	226,384,148
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	94,317,464	41,906,617	213,771,971	287,835,303	290,134,634
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	35,357,196	(78,530)	39,378,931	35,286,365	20,520,153
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	4,861,043	(2,558,166)	5,351,147	6,390,461	15,659,526
61. Total (Line 34)	938,674,970	(385,144,593)	1,228,600,845	1,478,524,600	1,490,564,883
Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
62. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
63. Losses incurred (Line 2)	(232.9)	(5.4)	77.1	70.3	55.3
64. Loss expenses incurred (Line 3)	593.4	(6.4)	20.8	13.0	18.8
65. Other underwriting expenses incurred (Line 4)	125.4	84.3	18.4	28.5	28.8
66. Net underwriting gain (loss) (Line 8)	(380.1)	25.6	(16.3)	(11.5)	(3.0)
Other Percentages					
67. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 34 x 100.0)	(654.0)	242.5	16.7	19.7	27.4
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	360.5	(11.8)	97.9	83.3	74.1
69. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 34 divided by Page 3, Line 35, Col. 1 x 100.0)	(5.1)	118.8	100.1	148.5	118.4
One Year Loss Development (000 omitted)					
70. Development in estimated losses and loss expenses incurred prior to current year (Schedule P - Part 2 - Summary, Line 12, Col. 11)	(218,544)	108,673	733,358	410,264	117,537
71. Percent of development of loss and loss expenses incurred to policyholders' surplus of prior year end (Line 70 above divided by Page 4, Line 21, Col. 1 x 100.0)	(108.0)	15.6	57.9	22.6	4.9
Two Year Loss Development (000 omitted)					
72. 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)	(4,933)	1,086,807	893,054	523,624	(125,662)
73. Percent of development of loss and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 72 above divided by Page 4, Line 21, Col. 2 x 100.0)	(0.7)	85.8	49.3	21.8	(5.4)

SCHEDULE D - SUMMARY BY COUNTRY

Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
BONDS	1. United States	895,351,318	890,517,343	897,848,576	883,729,462
Governments	2. Canada	76,521	81,569	78,439	75,000
(Including all obligations guaranteed	3. Other Countries	1,953,290	1,946,557	1,849,576	1,940,000
by governments)	4. Totals	897,381,129	892,545,469	899,776,591	885,744,462
States, Territories and Possessions	5. United States	151,751	150,114	151,751	150,000
(Direct and guaranteed)	6. Canada	9,906,694	9,991,118	10,608,390	9,750,000
	7. Other Countries	0	0	0	0
	8. Totals	10,058,444	10,141,232	10,760,141	9,900,000
Political Subdivisions of States,	9. United States	0	0	0	0
Territories and Possessions	10. Canada	0	0	0	0
(Direct and guaranteed)	11. Other Countries	0	0	0	0
	12. Totals	0	0	0	0
Special revenue and special assessment obligations and all non-guaranteed	13. United States	199,500,829	202,360,237	202,513,221	195,580,602
obligations of agencies and authorities of	14. Canada	0	0	0	0
governments and their political subdivisions	15. Other Countries	0	0	0	0
	16. Totals	199,500,829	202,360,237	202,513,221	195,580,602
Public Utilities (unaffiliated)	17. United States	25,593,482	25,577,048	26,605,231	23,200,000
	18. Canada	0	0	0	0
	19. Other Countries	0	0	0	0
	20. Totals	25,593,482	25,577,048	26,605,231	23,200,000
Industrial and Miscellaneous and Credit Tenant	21. United States	432,086,001	403,570,363	434,620,320	431,440,178
Loans (unaffiliated)	22. Canada	0	0	0	0
	23. Other Countries	19,846,895	19,904,865	20,188,713	14,505,000
	24. Totals	451,932,896	423,475,229	454,809,033	445,945,178
Parent, Subsidiaries and Affiliates	25. Totals	0	0	0	0
	26. **Total Bonds**	1,584,466,780	1,554,099,215	1,594,464,215	1,560,370,242
PREFERRED STOCKS	27. United States	0	0	0	
Public Utilities (unaffiliated)	28. Canada	0	0	0	
	29. Other Countries	0	0	0	
	30. Totals	0	0	0	
Banks, Trust and Insurance Companies	31. United States	0	0	0	
(unaffiliated)	32. Canada	0	0	0	
	33. Other Countries	0	0	0	
	34. Totals	0	0	0	
Industrial and Miscellaneous (unaffiliated)	35. United States	68,030	105,623	92,695	
	36. Canada	0	0	0	
	37. Other Countries	0	0	0	
	38. Totals	68,030	105,623	92,695	
Parent, Subsidiaries and Affiliates	39. Totals	0	0	0	
	40. **Total Preferred Stocks**	68,030	105,623	92,695	
COMMON STOCKS	41. United States	0	0	0	
Public Utilities (unaffiliated)	42. Canada	0	0	0	
	43. Other Countries	0	0	0	
	44. Totals	0	0	0	
Banks, Trust and Insurance Companies	45. United States	743,699	743,699	743,699	
(unaffiliated)	46. Canada	0	0	0	
	47. Other Countries	0	0	0	
	48. Totals	743,699	743,699	743,699	
Industrial and Miscellaneous (unaffiliated)	49. United States	1,643,553	1,643,553	1,633,596	
	50. Canada	77,194	77,194	33,739	
	51. Other Countries	0	0	0	
	52. Totals	1,720,747	1,720,747	1,667,335	
Parent, Subsidiaries and Affiliates	53. Totals	105,837,000	105,837,000	72,543,609	
	54. **Total Common Stocks**	108,301,446	108,301,446	74,954,643	
	55. **Total Stocks**	108,369,475	108,407,068	75,047,337	
	56. **Total Bonds and Stocks**	1,692,836,255	1,662,506,283	1,669,511,552	

SCHEDULE D - VERIFICATION BETWEEN YEARS

1. Book/adjusted carrying value of bonds and stocks, prior year 1,955,458,832
2. Cost of bonds and stocks acquired, Column 7, Part 3 730,196,847
3. Increase (decrease) by adjustment:
   3.1 Columns 12 + 13 - 14, Part 1 ..... (8,347,285)
   3.2 Column 18, Part 2, Sec. 1 ..... (2,931,665)
   3.3 Column 15, Part 2, Sec. 2 ..... (23,633,085)
   3.4 Column 14, Part 4 ..... (8,126,545) ..... (43,038,580)
4. Total gain (loss), Col. 19, Part 4 29,345,849
5. Deduct consideration for bonds and stocks disposed of Column 7, Part 4 979,181,482
6. Foreign Exchange Adjustment:
   6.1 Column 15, Part 1 54,788
   6.2 Column 19, Part 2, Sec. 1 0
   6.3 Column 16, Part 2, Sec. 2 0
   6.4 Column 15, Part 4 ..... 0 54,788
7. Book/adjusted carrying value at end of current period 1,692,836,255
8. Total valuation allowance 0
9. Subtotal (Lines 7 plus 8) 1,692,836,255
10. Total nonadmitted amounts 0
11. Statement value of bonds and stocks, current period 1,692,836,255

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
	Direct and Assumed	Ceded	Net (Cols. 1 - 2)	4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
1. Prior	XXX	XXX	XXX	242,542	83,146	73,558	15,989	3,388	(161)	(999)	220,513	XXX
2. 1995	3,088,779	258,933	2,829,846	1,607,484	124,496	139,481	13,681	96,768	528	59,890	1,705,028	XXX
3. 1996	3,087,094	298,118	2,788,976	1,635,425	117,118	148,596	17,350	113,119	914	69,199	1,761,758	XXX
4. 1997	3,179,134	256,693	2,922,441	1,817,955	157,938	164,498	12,083	120,194	2,527	73,098	1,930,099	XXX
5. 1998	3,283,749	455,427	2,828,322	2,355,986	508,094	209,837	42,228	156,588	5,169	74,749	2,166,920	XXX
6. 1999	3,338,595	888,663	2,449,932	2,440,195	886,236	241,321	61,213	176,047	8,589	95,649	1,901,525	XXX
7. 2000	3,723,754	1,067,553	2,656,201	2,468,127	870,867	232,471	57,833	269,622	18,934	209,703	2,022,586	XXX
8. 2001	4,776,690	2,304,460	2,472,230	2,413,539	943,526	221,563	39,192	303,642	54,000	114,154	1,902,026	XXX
9. 2002	4,528,662	2,631,131	1,897,531	1,124,324	423,898	103,111	21,711	211,847	93,103	36,645	900,570	XXX
10. 2003	2,597,722	2,164,948	432,774	387,092	325,840	2,000	(3,624)	57,479	13,537	7,999	110,818	XXX
11. 2004	262,845	203,034	59,811	59,555	29,104	947	(2,054)	17,434	2,270	214	48,617	XXX
12. Totals	XXX	XXX	XXX	16,552,224	4,470,263	1,537,383	275,602	1,526,129	199,411	740,301	14,670,460	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 Subrogation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding - Direct and Assumed
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	Direct and Assumed	Ceded			
1.	1,175,670	423,445	47,499	72,154	181,040	7,271	122,201	10,362	17,370	3,455	863	1,027,093	XXX
2.	85,737	12,136	(4,882)	888	6,412	49	7,962	108	1,750	300	306	83,498	XXX
3.	97,040	16,268	(369)	1,428	6,595	253	10,203	992	2,093	386	600	96,235	XXX
4.	136,088	27,210	11,148	202	7,978	960	15,395	4,311	2,861	532	1,555	140,255	XXX
5.	194,248	47,747	87,127	46,547	13,588	1,847	22,312	2,367	4,484	893	2,723	222,358	XXX
6.	325,969	158,573	221,692	114,324	19,175	6,444	33,048	7,122	8,931	1,934	8,844	320,417	XXX
7.	370,926	226,571	277,802	222,540	45,947	26,098	56,782	35,307	14,220	3,218	4,475	251,943	XXX
8.	478,796	300,602	354,083	191,317	39,110	12,122	79,310	46,223	19,224	4,441	10,827	415,818	XXX
9.	437,902	213,288	404,221	322,234	47,015	16,657	101,658	47,416	27,134	6,288	16,762	412,048	XXX
10.	250,528	107,273	298,249	202,074	25,604	10,971	92,122	51,318	16,700	4,003	17,686	307,563	XXX
11.	34,571	12,556	46,672	22,668	3,505	1,252	12,232	7,772	3,095	375	6,335	55,452	XXX
12. Totals	3,587,475	1,545,669	1,743,242	1,196,376	395,969	83,924	553,225	213,298	117,862	25,826	70,976	3,332,680	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 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense	Inter-Company Pooling Participation Percentage	35 Losses Unpaid	36 Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	260,662	199	XXX	466,908	299,324
2.	1,940,712	152,186	1,788,526	62.8	58.8	63.2	19,559	3		48,272	15,664
3.	2,012,702	154,710	1,857,993	65.2	51.9	66.6	20,797	4		58,178	17,256
4.	2,276,117	205,763	2,070,354	71.6	80.2	70.8	29,598	7		90,226	20,424
5.	3,044,170	654,892	2,389,277	92.7	143.8	84.5	42,642	31		144,439	35,246
6.	3,466,378	1,244,436	2,221,942	103.8	140.0	90.7	52,581	117		222,183	45,536
7.	3,735,898	1,461,369	2,274,529	100.3	136.9	85.6	35,644	234		163,973	52,092
8.	3,909,267	1,591,423	2,317,844	81.8	69.1	93.8	28,253	226		312,707	74,632
9.	2,457,212	1,144,594	1,312,618	54.3	43.5	69.2	43,691	284		262,910	105,163
10.	1,129,774	711,392	418,381	43.5	32.9	96.7	34,374	137		205,056	67,996
11.	178,011	73,942	104,069	67.7	36.4	174.0	4,605	3		41,414	9,430
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	572,406	1,245	XXX	2,016,266	742,763

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 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004	11 One Year	12 Two Year
1. Prior	4,147,736	4,135,099	3,935,538	3,755,354	3,901,262	3,752,877	4,345,700	4,455,681	4,389,133	4,223,507	(165,626)	(232,174)
2. 1995	1,993,013	1,930,812	1,928,044	1,740,122	1,715,881	1,697,554	1,691,682	1,680,965	1,701,068	1,699,161	(1,907)	18,196
3. 1996	XXX	2,003,868	1,883,074	1,924,352	1,735,622	1,752,444	1,737,242	1,738,406	1,759,625	1,755,097	(4,528)	16,691
4. 1997	XXX	XXX	2,009,337	1,966,974	1,918,759	1,901,720	1,914,927	1,958,619	1,974,725	1,962,289	(12,436)	3,670
5. 1998	XXX	XXX	XXX	2,051,305	2,026,769	2,171,946	2,138,558	2,222,606	2,222,486	2,246,920	24,434	24,314
6. 1999	XXX	XXX	XXX	XXX	1,691,083	1,863,880	1,846,588	1,936,001	1,964,823	2,055,995	91,172	119,994
7. 2000	XXX	XXX	XXX	XXX	XXX	1,610,206	1,618,950	1,924,181	1,992,791	2,018,444	25,653	94,263
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	1,728,348	2,055,038	2,104,151	2,076,798	(27,353)	21,760
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,250,837	1,222,205	1,179,190	(43,015)	(71,647)
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	470,626	365,688	(104,938)	XXX
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	86,184	XXX	XXX
										12. Totals	(218,544)	(4,933)

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 Number of Claims Closed With Loss Payment	12 Number of Claims Closed Without Loss Payment
	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004		
1. Prior	000	946,312	1,480,875	1,866,891	2,125,802	2,396,206	2,626,522	2,724,451	2,897,353	3,114,318	XXX	XXX
2. 1995	631,963	1,039,400	1,248,125	1,384,425	1,459,162	1,512,670	1,547,930	1,568,307	1,589,411	1,608,788	XXX	XXX
3. 1996	XXX	667,236	1,074,070	1,289,299	1,400,653	1,509,541	1,569,977	1,606,468	1,630,318	1,649,553	XXX	XXX
4. 1997	XXX	XXX	653,265	1,110,163	1,340,057	1,519,030	1,633,102	1,705,525	1,769,450	1,812,432	XXX	XXX
5. 1998	XXX	XXX	XXX	721,916	1,245,640	1,552,087	1,761,112	1,902,492	1,946,192	2,015,501	XXX	XXX
6. 1999	XXX	XXX	XXX	XXX	686,918	1,185,332	1,466,033	1,627,526	1,658,754	1,734,067	XXX	XXX
7. 2000	XXX	XXX	XXX	XXX	XXX	759,838	1,237,516	1,532,059	1,637,902	1,771,898	XXX	XXX
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	727,783	1,210,266	1,461,707	1,652,384	XXX	XXX
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	459,740	553,991	781,826	XXX	XXX
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(103,954)	66,876	XXX	XXX
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	33,452	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 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	1,858,477	1,280,742	904,717	619,422	640,221	328,045	617,146	571,165	314,709	183,195
2. 1995	933,792	590,368	432,490	177,636	114,815	64,260	47,696	15,552	21,781	10,409
3. 1996	XXX	888,558	516,627	410,130	138,272	88,946	47,057	12,717	19,150	18,430
4. 1997	XXX	XXX	839,586	474,582	274,170	144,503	89,366	58,311	50,087	33,961
5. 1998	XXX	XXX	XXX	780,984	334,188	268,098	75,630	54,756	35,428	73,177
6. 1999	XXX	XXX	XXX	XXX	570,957	301,863	68,238	160,881	88,375	141,801
7. 2000	XXX	XXX	XXX	XXX	XXX	550,986	43,166	157,507	104,598	82,342
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	614,611	409,730	294,420	219,232
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	482,914	292,680	142,392
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	406,590	140,924
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	28,464

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

States, etc.	1 Is Insurer Licensed? (Yes or No)	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken 2 Direct Premiums Written	 3 Direct Premiums Earned	4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
1. Alabama AL	Yes	(476,618)	(256,999)	(143,149)	3,068,841	(18,737,579)	13,334,572	0	
2. Alaska AK	Yes	407,848	442,460	(44,518)	(104,164)	(3,280,885)	2,116,252	0	
3. Arizona AZ	Yes	(287,491)	141,159	(262,660)	11,849,184	(3,694,338)	10,708,050	0	949
4. Arkansas AR	Yes	61,791	112,330	(52,329)	383,895	(2,279,874)	2,843,433	0	
5. California CA	Yes	(2,841,963)	3,625,441	(2,922,925)	92,941,237	(124,926,065)	202,094,120	0	(4,477)
6. Colorado CO	Yes	2,890,690	3,282,939	(340,067)	5,026,772	(5,937,337)	7,199,989	0	
7. Connecticut CT	Yes	(143,790)	582,004	(573,434)	23,668,875	(180,617,998)	49,831,520	0	(808)
8. Delaware DE	Yes	(297,773)	(259,602)	(616,314)	1,513,929	1,011,138	2,338,851	0	
9. District of Columbia DC	Yes	63,414	166,779	(35,331)	2,989,580	(9,491,661)	10,998,039	0	8,934
10. Florida FL	Yes	2,821,764	12,238,001	(600,636)	41,306,467	(24,697,250)	57,317,306	387	(17,541)
11. Georgia GA	Yes	291,483	3,595,834	(316,118)	18,720,121	30,313,868	40,283,429	1,552	
12. Hawaii HI	Yes	449,762	726,611	(55,405)	1,890,081	(3,348,197)	3,395,438	0	
13. Idaho ID	Yes	279,284	340,623	(93,770)	209,047	(1,436,414)	883,269	0	
14. Illinois IL	Yes	11,768,436	15,274,222	(992,507)	71,135,302	431,092,943	421,718,873	780	
15. Indiana IN	Yes	82,019	448,121	(221,921)	1,945,799	(10,820,836)	5,695,772	0	(4,503)
16. Iowa IA	Yes	1,088,947	1,250,071	(72,409)	4,532,348	207,966	4,771,303	0	
17. Kansas KS	Yes	239,698	393,444	(112,279)	1,047,164	8,858,383	5,047,865	0	
18. Kentucky KY	Yes	284,091	960,216	(236,633)	5,380,634	(10,932,973)	26,298,322	230	
19. Louisiana LA	Yes	1,792,376	2,347,710	(183,635)	9,615,492	(1,365,913)	9,324,161	77	
20. Maine ME	Yes	(56,684)	(27,052)	(6,880)	1,970,733	3,161,085	586,595	0	788
21. Maryland MD	Yes	497,058	1,363,596	(403,194)	21,249,513	56,164,860	42,676,768	251	21,043
22. Massachusetts MA	Yes	644,374	1,672,286	(328,917)	17,388,091	40,102,697	91,085,730	485	12,839
23. Michigan MI	Yes	673,018	1,062,801	(419,901)	7,574,950	(35,296,003)	19,507,360	0	525
24. Minnesota MN	Yes	(230,758)	1,047,174	(578,653)	8,157,606	11,430,742	33,994,304	0	(651)
25. Mississippi MS	Yes	161,558	495,715	(135,811)	4,099,501	(23,123,900)	4,632,206	0	
26. Missouri MO	Yes	357,717	652,886	(422,483)	6,233,677	(11,765,908)	8,478,425	0	(2,020)
27. Montana MT	Yes	(46,471)	(14,414)	(968,519)	514,011	(2,237,919)	1,071,895	0	
28. Nebraska NE	Yes	(399,429)	(394,820)	(131,931)	494,728	(858,394)	3,880,124	0	
29. Nevada NV	Yes	(640,999)	463,942	(91,258)	6,458,344	(14,014,280)	9,543,406	0	22,581
30. New Hampshire NH	Yes	42,423	220,109	(76,718)	1,455,216	645,660	6,111,947	0	(1,141)
31. New Jersey NJ	Yes	2,784,382	5,351,456	(817,430)	18,557,827	(83,524,969)	97,287,738	0	(9,295)
32. New Mexico NM	Yes	27,092	165,676	(64,168)	2,058,181	(10,119,550)	1,427,593	0	
33. New York NY	Yes	5,035,215	18,096,773	(3,313,830)	100,796,467	48,191,166	359,075,433	18,882	(830)
34. North Carolina NC	Yes	(2,409,714)	(790,776)	(782,725)	14,193,585	17,454,012	20,150,125	0	5,589
35. North Dakota ND	Yes	(17,817)	362	(2,941)	16,664	(440,887)	93,443	0	
36. Ohio OH	Yes	5,152,013	6,550,003	(53,245)	12,025,994	5,526,613	23,393,571	731	5,806
37. Oklahoma OK	Yes	(192,535)	(83,547)	(102,391)	1,528,432	(6,973,696)	3,048,642	0	
38. Oregon OR	Yes	637,490	887,206	(386,322)	6,061,563	(2,739,816)	11,284,888	0	
39. Pennsylvania PA	Yes	(975,673)	830,760	(1,157,325)	22,415,620	42,319,790	56,874,985	0	3,222
40. Rhode Island RI	Yes	15,101	65,446	(42,948)	790,184	(1,072,405)	6,188,936	47	
41. South Carolina SC	Yes	(583,815)	212,324	(455,301)	5,905,856	2,367,665	14,736,232	430	
42. South Dakota SD	Yes	(34,154)	(21,120)	(45,374)	15,250,289	4,728,458	189,554	0	
43. Tennessee TN	Yes	(227,312)	326,821	(808,757)	12,947,652	17,191,836	21,157,952	43	14,357
44. Texas TX	Yes	(3,296,618)	(1,535,803)	(2,099,645)	49,003,488	(52,166,602)	138,325,397	1,130	
45. Utah UT	Yes	(93,456)	1,313	(87,212)	1,603,189	(24,719,742)	1,137,066	0	2,310
46. Vermont VT	Yes	(42,017)	3,735	(35,149)	313,048	1,458,925	1,131,647	0	(1,016)
47. Virginia VA	Yes	(1,312,055)	630,471	(554,461)	13,945,329	634,175	28,288,467	111	8,469
48. Washington WA	Yes	(609,212)	(146,016)	(38,030)	5,100,986	(26,007,990)	13,463,917	0	(931)
49. West Virginia WV	Yes	71,187	116,687	(91,944)	145,975	830,315	875,716	0	
50. Wisconsin WI	Yes	4,384,486	5,414,286	(1,163,028)	12,972,514	(20,587,534)	21,694,560	149	1,103
51. Wyoming WY	Yes	(440,429)	(431,799)	(15,149)	39,380	(704,441)	97,651	0	
52. American Samoa AS	Yes	29,742	29,742	0	0	(746)	0	0	
53. Guam GU	Yes	331	332	0	0	(15,307)	0	0	
54. Puerto Rico PR	Yes	45,476	45,476	(13)	4,473,347	22,246,672	4,971,318	0	
55. U.S. Virgin Islands VI	Yes	0	0	0	0	(104)	0	0	
56. Canada CN	Yes	(230,179)	316,822	(120,312)	843,847	(2,683,416)	12,226,106	0	
57. Aggregate Other Aliens OT	XXX	120,048	1,132,903	(680,281)	26,205,621	32,815,957	18,510,487	0	0
58. Totals	(a) 55	27,313,351	89,123,122	(24,358,286)	699,912,010	58,133,999	1,953,400,747	25,285	65,302
DETAILS OF WRITE-INS									
5701. Asia	XXX	(52,422)	94,498	0	1,451,715	(2,377,992)	2,050,478	0	0
5702. Australia	XXX	114,605	453,376	0	0	(1,665,553)	(5,689)	0	0
5703. Europe	XXX	54,657	352,646	0	24,753,906	36,556,498	16,243,092	0	0
5798. Summary of remaining write-ins for Line 57 from overflow page	XXX	3,209	232,384	(680,281)	0	303,003	222,607	0	0
5799. Totals (Lines 5701 through 5703 + 5798) (Line 57 above)	XXX	120,048	1,132,903	(680,281)	26,205,621	32,815,957	18,510,487	0	0

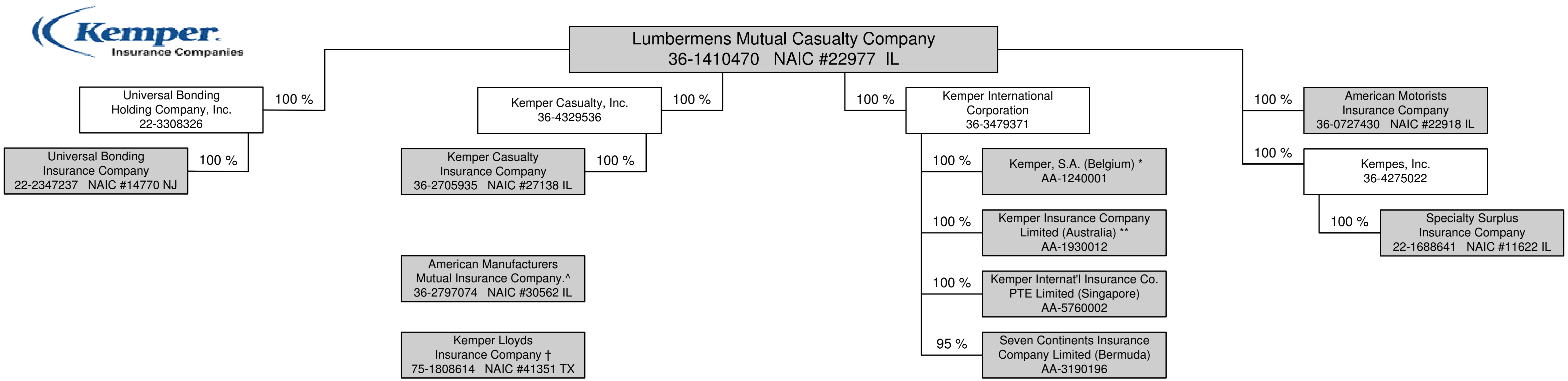
(a) Insert the number of yes responses except for Canada and Other Alien.

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

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

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

PART 1 - ORGANIZATIONAL CHART



^ American Manufacturers Mutual Insurance Company is a mutual company associated with Lumbermens Mutual Casualty Company.

† Kemper Lloyds Insurance Company is a Texas Lloyds association of underwriters under the sponsorship of Lumbermens Mutual Casualty Company.

* Percentage includes one minority shareholder.
** Percentage includes director qualifying shares.

Insurers are identified by shaded boxes. Percentages show common stock ownership as of 12/31/2004.