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PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

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

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

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

Internet Website Address www.kemperinsurance.com

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

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

Policyowner Relations Contact Customer Relations, 1 Kemper Dr, ML-12NW0301 (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	President and CEO	John Keating Conway	Secretary
Fredrick Thomas Griffith #	Chief Accounting Officer	Geoffrey Andrew Cooke #	Treasurer

OTHER OFFICERS

Frederick Otto Kist	Senior Vice President	Benjamin David Schwartz	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	Zachary Layne Stamp #

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 President and CEO	John Keating Conway Secretary	Fredrick Thomas Griffith Chief Accounting Officer

Subscribed and sworn to before me this 20th day of February, 2006

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

ASSETS

	Current Year 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	Prior Year 4 Net Admitted Assets
1. Bonds (Schedule D)	1,551,961,871		1,551,961,871	1,584,466,780
2. Stocks (Schedule D):				
2.1 Preferred stocks	0		0	68,030
2.2 Common stocks	93,861,274		93,861,274	108,301,446
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens	795,919		795,919	1,810,907
3.2 Other than first liens	8,257		8,257	24,560
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)	4,241,182		4,241,182	34,965,386
5. Cash ($ (26,369,202) , Schedule E, Part 1), cash equivalents ($ 9,997,633 , Schedule E, Part 2) and short-term investments ($ 324,642,471 , Schedule DA)	308,270,902		308,270,902	937,981,796
6. Contract loans, (including $ premium notes)			0	0
7. Other invested assets (Schedule BA)	28,687,812	1,305	28,686,507	51,460,040
8. Receivables for securities	32,476,418		32,476,418	2,405,798
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	2,020,303,635	1,305	2,020,302,330	2,721,484,743
11. Title plants less $ charged off (for Title insurers only)			0	
12. Investment income due and accrued	15,771,735		15,771,735	15,581,714
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	125,359,223	50,808,774	74,550,449	109,557,218
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ earned but unbilled premium)	56,197,621	8,201,816	47,995,805	90,367,442
13.3 Accrued retrospective premium	60,289,479	1,632,790	58,656,689	107,837,509
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	336,460,424		336,460,424	371,196,164
14.2 Funds held by or deposited with reinsured companies	10,558,018		10,558,018	16,561,259
14.3 Other amounts receivable under reinsurance contracts			0	0
15. Amounts receivable relating to uninsured plans			0	0
16.1 Current federal and foreign income tax recoverable and interest thereon			0	0
16.2 Net deferred tax asset	759,968,456	759,968,456	0	0
17. Guaranty funds receivable or on deposit			0	30,510
18. Electronic data processing equipment and software			0	2,174,949
19. Furniture and equipment, including health care delivery assets ($)			0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
21. Receivables from parent, subsidiaries and affiliates			0	59,672,555
22. Health care ($) and other amounts receivable			0	0
23. Aggregate write-ins for other than invested assets	217,358,990	46,589,381	170,769,609	281,976,444
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	3,602,267,581	867,202,522	2,735,065,059	3,776,440,507
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
26. Total (Lines 24 and 25)	3,602,267,581	867,202,522	2,735,065,059	3,776,440,507
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. Amounts receivable under high deductible policies	43,863,772	11,430,098	32,433,674	55,053,097
2302. Reinsurance accounted for as a deposit	20,053,594		20,053,594	43,011,255
2303. Advance to claims service provider	16,548,677		16,548,677	21,273,837
2398. Summary of remaining write-ins for Line 23 from overflow page	136,892,947	35,159,283	101,733,664	162,638,255
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	217,358,990	46,589,381	170,769,609	281,976,444

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	1,416,382,931	2,016,267,854
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	36,560,978	82,963,829
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	593,179,696	742,764,295
4. Commissions payable, contingent commissions and other similar charges	989,595	1,476,794
5. Other expenses (excluding taxes, licenses and fees)	21,309,938	32,081,754
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	48,881,275	57,581,110
7.1 Current federal and foreign income taxes (including $ .... on realized capital gains (losses))	8,256,345	29,742,368
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 $ 15,279,743 and including warranty reserves of $ 5,349,203)	19,045,951	43,108,518
10. Advance premiums		0
11. Dividends declared and unpaid:		
11.1 Stockholders		0
11.2 Policyholders		0
12. Ceded reinsurance premiums payable (net of ceding commissions)	19,035,927	21,673,664
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	10,619,735	13,229,512
14. Amounts withheld or retained by company for account of others	183,081,209	247,644,657
15. Remittances and items not allocated	12,222,013	58,502,234
16. Provision for reinsurance (Schedule F, Part 7)	0	0
17. Net adjustments in assets and liabilities due to foreign exchange rates	5,339,676	5,519,042
18. Drafts outstanding		0
19. Payable to parent, subsidiaries and affiliates	13,191,661	0
20. Payable for securities		50,283
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	178,654,978	252,399,713
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	2,566,751,908	3,605,005,627
25. Protected cell liabilities		0
26. Total liabilities (Lines 24 and 25)	2,566,751,908	3,605,005,627
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)	(531,542,447)	(528,420,718)
34. Less treasury stock, at cost:		
34.1 .... shares common (value included in Line 28 $ ....)		0
34.2 .... shares preferred (value included in Line 29 $ ....)		0
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 39)	168,313,151	171,434,880
36. TOTALS (Page 2, Line 26, Col. 3)	2,735,065,059	3,776,440,507
DETAILS OF WRITE-INS		
2301. Accounts payable and other liabilities	164,401,923	205,508,547
2302. Reinsurance accounted for as a deposit	14,253,055	38,950,767
2303. Minimum Pension Liability		7,940,399
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	178,654,978	252,399,713
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

STATEMENT OF INCOME

		1 Current Year	2 Prior Year
	UNDERWRITING INCOME		
1.	Premiums earned (Part 1, Line 34, Column 4)	21,300,321	59,809,702
	DEDUCTIONS		
2.	Losses incurred (Part 2, Line 34, Column 7)	68,855,156	(139,268,109)
3.	Loss expenses incurred (Part 3, Line 25, Column 1)	81,151,050	354,887,855
4.	Other underwriting expenses incurred (Part 3, Line 25, Column 2)	96,054,126	74,976,195
5.	Aggregate write-ins for underwriting deductions	540,492	(3,428,954)
6.	Total underwriting deductions (Lines 2 through 5)	246,600,824	287,166,987
7.	Net income of protected cells		0
8.	Net underwriting gain or (loss) (Line 1 minus Line 6 plus Line 7)	(225,300,503)	(227,357,285)
	INVESTMENT INCOME		
9.	Net investment income earned (Exhibit of Net Investment Income, Line 17)	73,925,822	96,109,930
10.	Net realized capital gains (losses) less capital gains tax of $ (Exhibit of Capital Gains (Losses))	(4,946,946)	12,867,168
11.	Net investment gain or (loss) (Lines 9 + 10)	68,978,876	108,977,098
	OTHER INCOME		
12.	Net gain or (loss) from agents' or premium balances charged off (amount recovered $ 103,123 amount charged off $ (21,351,763))	21,454,888	(6,589,637)
13.	Finance and service charges not included in premiums	363	26,784
14.	Aggregate write-ins for miscellaneous income	33,608,958	21,360,748
15.	Total other income (Lines 12 through 14)	55,064,209	14,797,895
16.	Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(101,257,418)	(103,582,292)
17.	Dividends to policyholders	7,127,581	(49,931,358)
18.	Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(108,384,999)	(53,650,934)
19.	Federal and foreign income taxes incurred	(24,410,660)	12,317,644
20.	Net income (Line 18 minus Line 19) (to Line 22)	(83,974,339)	(65,968,578)
	CAPITAL AND SURPLUS ACCOUNT		
21.	Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	171,434,880	202,425,965
	GAINS AND (LOSSES) IN SURPLUS		
22.	Net income (from Line 20)	(83,974,339)	(65,968,578)
23.	Net transfers (to) from Protected Cell accounts		
24.	Change in net unrealized capital gains or (losses) less capital gains tax of $	2,373,602	(22,252,837)
25.	Change in net unrealized foreign exchange capital gain (loss)	179,366	7,243,566
26.	Change in net deferred income tax	67,534,087	79,106,434
27.	Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	(26,101,978)	(57,637,749)
28.	Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	0	0
29.	Change in surplus notes		0
30.	Surplus (contributed to) withdrawn from protected cells		0
31.	Cumulative effect of changes in accounting principles		0
32.	Capital changes:		
	32.1. Paid in		0
	32.2. Transferred from surplus (Stock Dividend)		0
	32.3. Transferred to surplus		0
33.	Surplus adjustments:		
	33.1. Paid in		0
	33.2. Transferred to capital (Stock Dividend)		0
	33.3. Transferred from capital		0
34.	Net remittances from or (to) Home Office		0
35.	Dividends to stockholders		0
36.	Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)	0	0
37.	Aggregate write-ins for gains and losses in surplus	36,867,533	28,518,079
38.	Change in surplus as regards policyholders for the year (Lines 22 through 37)	(3,121,729)	(30,991,085)
39.	Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)	168,313,151	171,434,880
	DETAILS OF WRITE-INS		
0501.	Change in premium deficiency reserve	540,492	(3,428,954)
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)	540,492	(3,428,954)
1401.	Other income	33,608,958	20,522,178
1402.	Retroactive reinsurance gain/(loss)		838,570
1403.			
1498.	Summary of remaining write-ins for Line 14 from overflow page	0	0
1499.	Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above)	33,608,958	21,360,748
3701.	Provision for uncollectible reinsurance	28,800,055	(80,058,000)
3702.	Correction of errors	8,067,478	1,518,394
3703.	Change in minimum pension liability		107,057,685
3798.	Summary of remaining write-ins for Line 37 from overflow page	0	0
3799.	Totals (Lines 3701 thru 3703 plus 3798) (Line 37 above)	36,867,533	28,518,079

CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
Cash from Operations		
1. Premiums collected net of reinsurance	121,303,463	148,166,219
2. Net investment income	77,586,938	98,876,020
3. Miscellaneous income	61,067,450	17,654,792
4. Total (Lines 1 to 3)	259,957,851	264,697,031
5. Benefit and loss related payments	680,407,190	949,891,359
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	345,924,776	508,241,729
8. Dividends paid to policyholders	(45,229,907)	(79,500,716)
9. Federal and foreign income taxes paid (recovered) $ .... net of tax on capital gains (losses)	(2,924,637)	5,378,382
10. Total (Lines 5 through 9)	978,177,422	1,384,010,754
11. Net cash from operations (Line 4 minus Line 10)	(718,219,571)	(1,119,313,723)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	724,237,280	694,195,689
12.2 Stocks	60,868,816	284,985,793
12.3 Mortgage loans	1,301,825	17,519,311
12.4 Real estate	32,137,952	0
12.5 Other invested assets	21,949,623	62,160,014
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(22,340)	(183,121)
12.7 Miscellaneous proceeds	427,801	939,777
12.8 Total investment proceeds (Lines 12.1 to 12.7)	840,900,957	1,059,617,463
13. Cost of investments acquired (long-term only):		
13.1 Bonds	699,567,760	608,850,613
13.2 Stocks	49,401,466	121,346,233
13.3 Mortgage loans	0	0
13.4 Real estate	0	0
13.5 Other invested assets	0	27,206,632
13.6 Miscellaneous applications	30,120,903	0
13.7 Total investments acquired (Lines 13.1 to 13.6)	779,090,129	757,403,478
14. Net increase (decrease) in contract loans and premium notes	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	61,810,828	302,213,985
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)	26,697,849	(115,492,197)
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	26,697,849	(115,492,197)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17)	(629,710,894)	(932,591,935)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	937,981,796	1,870,573,731
19.2 End of period (Line 18 plus Line 19.1)	308,270,902	937,981,796

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	458,186	1,035,955	274,384	1,219,757
2.	Allied lines	723,056	1,413,531	778,415	1,358,172
3.	Farmowners multiple peril	0	0	0	0
4.	Homeowners multiple peril	920,736	1,339,668	(619,625)	2,880,029
5.	Commercial multiple peril	355,482	(2,249,579)	(103,012)	(1,791,085)
6.	Mortgage guaranty	0	0	0	0
8.	Ocean marine	(21,444)	(2,851)	(3,274)	(21,021)
9.	Inland marine	108,638	662,158	365,483	405,313
10.	Financial guaranty	0	0	0	0
11.1	Medical malpractice - occurrence	0	2,129,942	0	2,129,942
11.2	Medical malpractice - claims-made	5,600	(2,129,943)	(1)	(2,124,342)
12.	Earthquake	2,198	86,817	91,531	(2,516)
13.	Group accident and health	457,140	0	0	457,140
14.	Credit accident and health (group and individual)	0	0	0	0
15.	Other accident and health	2,507	0	0	2,507
16.	Workers' compensation	12,696,158	2,524,845	465,333	14,755,670
17.1	Other liability - occurrence	6,927,142	34,157,565	4,244,095	36,840,612
17.2	Other liability - claims-made	(1,487,216)	(12,324,607)	7,817,410	(21,629,233)
18.1	Products liability - occurrence	(3,898,964)	(601,398)	(663,010)	(3,837,352)
18.2	Products liability - claims-made	0	(65,279)	0	(65,279)
19.1,19.2	Private passenger auto liability	(4,203,236)	2,652,404	1,803,757	(3,354,589)
19.3,19.4	Commercial auto liability	(1,230,761)	6,269,737	128,730	4,910,246
21.	Auto physical damage	(593,016)	266,865	29,281	(355,432)
22.	Aircraft (all perils)	(123,547)	0	0	(123,547)
23.	Fidelity	2,757	115,519	12,690	105,586
24.	Surety	(13,676,793)	6,441,827	3,797,707	(11,032,673)
26.	Burglary and theft	7,980	11,749	13,206	6,523
27.	Boiler and machinery	85	0	0	85
28.	Credit	42,622	46,969	8,976	80,615
29.	International	0	0	0	0
30.	Reinsurance - Nonproportional Assumed Property	0	3,274	3,274	0
31.	Reinsurance - Nonproportional Assumed Liability	(237,556)	1,323,350	600,601	485,193
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	(2,762,246)	43,108,518	19,045,951	21,300,321
	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.

	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	274,384				274,384
2.	Allied lines	804,455	(26,040)			778,415
3.	Farmowners multiple peril					0
4.	Homeowners multiple peril	(619,625)				(619,625)
5.	Commercial multiple peril	15,957,392	(16,060,404)			(103,012)
6.	Mortgage guaranty					0
8.	Ocean marine	218,591	(221,865)			(3,274)
9.	Inland marine	7,084,600	(6,719,117)			365,483
10.	Financial guaranty					0
11.1	Medical malpractice - occurrence	66,035	(66,035)			0
11.2	Medical malpractice - claims-made	493,358	(493,359)			(1)
12.	Earthquake	188,753	(97,222)			91,531
13.	Group accident and health					0
14.	Credit accident and health (group and individual)					0
15.	Other accident and health					0
16.	Workers' compensation	25,361,963	(24,896,630)			465,333
17.1	Other liability - occurrence	1,662,213	2,581,882			4,244,095
17.2	Other liability - claims-made	6,219,984	1,597,426			7,817,410
18.1	Products liability - occurrence	(849,617)	186,607			(663,010)
18.2	Products liability - claims-made					0
19.1,19.2	Private passenger auto liability	1,883,478	(79,721)			1,803,757
19.3,19.4	Commercial auto liability	6,052,481	(5,923,751)			128,730
21.	Auto physical damage	1,861,501	(1,832,220)			29,281
22.	Aircraft (all perils)					0
23.	Fidelity	27,254	(14,564)			12,690
24.	Surety	1,336,130	2,461,577			3,797,707
26.	Burglary and theft	24,347	(11,141)			13,206
27.	Boiler and machinery	15,186	(15,186)			0
28.	Credit	(30,475)	39,451			8,976
29.	International					0
30.	Reinsurance - Nonproportional Assumed Property	3,274				3,274
31.	Reinsurance - Nonproportional Assumed Liability	147,127	453,474			600,601
32.	Reinsurance - Nonproportional Assumed Financial Lines					0
33.	Aggregate write-ins for other lines of business	0	0	0	0	0
34.	TOTALS	68,182,789	(49,136,838)	0	0	19,045,951
35.	Accrued retrospective premiums based on experience					
36.	Earned but unbilled premiums					
37.	Balance (Sum of Line 34 through 36)					19,045,951
	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	 3 From Non-Affiliates	Reinsurance Ceded 4 To Affiliates	 5 To Non-Affiliates	6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
1.	Fire	63,572	152,524	279,210		37,120	458,186
2.	Allied lines	30,858	48,106	697,334		53,242	723,056
3.	Farmowners multiple peril						0
4.	Homeowners multiple peril	23,200	31,402	863,806		(2,328)	920,736
5.	Commercial multiple peril	123,708	(293,372)	(68,560)		(593,706)	355,482
6.	Mortgage guaranty						0
8.	Ocean marine	(952)	(1,575)			18,917	(21,444)
9.	Inland marine	(122,757)	371,979	80,700		221,284	108,638
10.	Financial guaranty						0
11.1	Medical malpractice - occurrence						0
11.2	Medical malpractice - claims-made	1,261				(4,339)	5,600
12.	Earthquake	(804)	12,960	2,274		12,232	2,198
13.	Group accident and health	60,000		392,849		(4,291)	457,140
14.	Credit accident and health (group and individual)						0
15.	Other accident and health	15,144				12,637	2,507
16.	Workers' compensation	7,360,440	18,442,126	534,876	678,638	12,962,646	12,696,158
17.1	Other liability - occurrence	2,162,994	1,887,417	346,192	(994)	(2,529,545)	6,927,142
17.2	Other liability - claims-made	56,477	(1,616,918)	637,149		563,924	(1,487,216)
18.1	Products liability - occurrence	(3,628,235)	(96,927)	(14,177)	(1,491)	161,116	(3,898,964)
18.2	Products liability - claims-made			(12,332)		(12,332)	0
19.1,19.2	Private passenger auto liability	(48,254)	164,943	(4,064,679)		255,246	(4,203,236)
19.3,19.4	Commercial auto liability	(268,174)	(65,211)	693,354		1,590,730	(1,230,761)
21.	Auto physical damage	(830,343)	239,181	265,290		267,144	(593,016)
22.	Aircraft (all perils)	(24,282)	851	(126,411)		(26,295)	(123,547)
23.	Fidelity	(3,871)	(573)	10,291		3,090	2,757
24.	Surety	(882,685)	6,178,340	611,668		19,584,116	(13,676,793)
26.	Burglary and theft	1,833	12	7,341		1,206	7,980
27.	Boiler and machinery		6			(79)	85
28.	Credit	119,317				76,695	42,622
29.	International						0
30.	Reinsurance - Nonproportional Assumed Property	XXX		(14,137)		(14,137)	0
31.	Reinsurance - Nonproportional Assumed Liability	XXX	(304,633)	350,462		283,385	(237,556)
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	4,208,447	25,150,638	1,472,500	676,153	32,917,678	(2,762,246)
	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

	Line of Business	Losses Paid Less Salvage 1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)	5 Net Losses Unpaid Current Year (Part 2A, Col. 8)	6 Net Losses Unpaid Previous Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
1.	Fire	41,617	(7,624,757)	(6,922,282)	(660,858)	1,905,239	3,544,820	(2,300,439)	(188.6)
2.	Allied lines	82,890	10,006,944	7,458,279	2,631,555	459,578	307,580	2,783,553	204.9
3.	Farmowners multiple peril		85	85	0	5,499	(51,139)	56,638	0.0
4.	Homeowners multiple peril	2,529,029	6,788,550	4,730,873	4,586,706	5,557,603	10,476,902	(332,593)	(11.5)
5.	Commercial multiple peril	14,457,493	74,266,990	26,377,079	62,347,404	80,817,786	132,790,865	10,374,325	(579.2)
6.	Mortgage guaranty				0	0	0	0	0.0
8.	Ocean marine	514,011	(59,829)	741,428	(287,246)	535,878	2,384,635	(2,136,003)	10,161.3
9.	Inland marine	3,279,052	1,557,504	2,111,414	2,725,142	(449,701)	8,346,502	(6,071,061)	(1,497.9)
10.	Financial guaranty				0	0	0	0	0.0
11.1	Medical malpractice - occurrence	6,500	18,260	20,535	4,225	183,150	328,316	(140,941)	(6.6)
11.2	Medical malpractice - claims-made	997,717	868,169	889,866	976,020	3,601,834	4,285,253	292,601	(13.8)
12.	Earthquake	7	13,333	(159,210)	172,550	(46,409)	36,583	89,558	(3,559.5)
13.	Group accident and health	12,635,672	4,250,921	11,329,049	5,557,544	27,697,506	31,163,449	2,091,601	457.5
14.	Credit accident and health (group and individual)				0	0	0	0	0.0
15.	Other accident and health	(36,630)		945	(37,575)	(241,516)	(284,988)	5,897	235.2
16.	Workers' compensation	150,200,780	278,692,818	136,262,024	292,631,574	851,544,164	1,094,728,312	49,447,426	335.1
17.1	Other liability - occurrence	202,310,133	82,758,346	121,756,613	163,311,866	153,647,110	308,517,550	8,441,426	22.9
17.2	Other liability - claims-made	47,437,564	55,551,019	69,424,275	33,564,308	84,854,743	107,765,168	10,653,883	(49.3)
18.1	Products liability - occurrence	15,445,272	8,474,460	49,503,801	(25,584,069)	(53,371,349)	(73,942,920)	(5,012,498)	130.6
18.2	Products liability - claims-made		495,493	482,743	12,750	36,521	(17,563)	66,834	(102.4)
19.1,19.2	Private passenger auto liability	34,823,519	55,809,346	45,985,173	44,647,692	40,480,974	78,695,570	6,433,096	(191.8)
19.3,19.4	Commercial auto liability	46,609,985	61,524,161	66,124,322	42,009,824	42,755,998	89,837,045	(5,071,223)	(103.3)
21.	Auto physical damage	216,866	3,883,663	3,767,749	332,780	(1,478,300)	(1,436,198)	290,678	(81.8)
22.	Aircraft (all perils)	8,830,116	198,377	12,057,027	(3,028,534)	10,217,615	8,666,731	(1,477,650)	1,196.0
23.	Fidelity	2,590,232	(317,060)	142,678	2,130,494	(640,154)	(9,637)	1,499,977	1,420.6
24.	Surety	64,313,838	45,695,299	111,415,708	(1,406,571)	54,196,407	23,513,468	29,276,368	(265.4)
26.	Burglary and theft		624	75	549	1,927	6,780	(4,304)	(66.0)
27.	Boiler and machinery	3,599	(32,754)	(393,062)	363,907	326,656	404,454	286,109	336,598.8
28.	Credit	(1,112,794)	(542,472)	(1,171,703)	(483,563)	(137,593)	1,648,907	(2,270,063)	(2,815.9)
29.	International				0	0	0	0	0.0
30.	Reinsurance - Nonproportional Assumed Property	XXX	433,713	332,556	101,157	620,999	769,721	(47,565)	0.0
31.	Reinsurance - Nonproportional Assumed Liability	XXX	94,209,624	52,089,168	42,120,456	113,300,766	183,791,696	(28,370,474)	(5,847.3)
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	606,176,468	776,920,827	714,357,208	668,740,087	1,416,382,931	2,016,267,862	68,855,156	323.3
	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
	Line of Business	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded	Net Losses Unpaid (Cols. 4 +5 + 6 - 7)	Unpaid Loss Adjustment Expenses
1.	Fire	78,484	715,010	1,767,925	(974,431)	258,591	2,700,848	79,769	1,905,239	(792,469)
2.	Allied lines	63,209	1,204,515	1,007,794	259,930	215,556	1,076,724	1,092,632	459,578	180,174
3.	Farmowners multiple peril		200,477	200,477	0		196,037	190,538	5,499	1,990
4.	Homeowners multiple peril	1,149,179	5,332,025	3,511,240	2,969,964	449,447	3,647,038	1,508,846	5,557,603	1,589,485
5.	Commercial multiple peril	21,840,484	87,441,712	28,703,688	80,578,508	7,298,391	28,658,906	35,718,019	80,817,786	102,671,654
6.	Mortgage guaranty				0				0	
8.	Ocean marine	887,394	564,849	1,143,518	308,725	221,212	734,927	728,986	535,878	1,056,597
9.	Inland marine	2,412,546	(2,565,087)	600,685	(753,226)	550,531	861,809	1,108,815	(449,701)	1,379,535
10.	Financial guaranty				0				0	
11.1	Medical malpractice - occurrence	20,000	25,000	19,250	25,750	571,749	(75,651)	338,698	183,150	105,042
11.2	Medical malpractice - claims-made	1,174,554	1,368,019	1,083,595	1,458,978	1,755,633	2,911,406	2,524,183	3,601,834	1,098,736
12.	Earthquake	2,398	33,389	13,742	22,045	105	(54,351)	14,208	(46,409)	214,150
13.	Group accident and health	67,500,236	20,447,397	61,253,966	26,693,667	2,103,540	1,196,617	2,296,318	(a) 27,697,506	821,658
14.	Credit accident and health (group and individual)				0				0	
15.	Other accident and health				0	(109,678)	(132,543)	(705)	(a) (241,516)	7,645
16.	Workers' compensation	509,391,767	1,032,570,348	441,053,345	1,100,908,770	4,046,759	82,397,817	335,809,182	851,544,164	196,698,505
17.1	Other liability - occurrence	322,797,666	155,767,203	256,417,664	222,147,205	47,945,394	14,571,653	131,017,142	153,647,110	113,616,302
17.2	Other liability - claims-made	60,330,198	44,793,005	64,603,407	40,519,796	52,203,903	53,670,780	61,539,736	84,854,743	31,086,819
18.1	Products liability - occurrence	22,337,527	35,334,079	112,002,084	(54,330,478)	28,333,528	(16,100,355)	11,274,044	(53,371,349)	82,742,869
18.2	Products liability - claims-made		841,181	841,178	3		1,143,996	1,107,478	36,521	134,450
19.1,19.2	Private passenger auto liability	18,243,343	46,987,777	34,026,030	31,205,090	9,448,629	23,591,716	23,764,461	40,480,974	18,006,121
19.3,19.4	Commercial auto liability	32,674,639	38,463,268	32,286,165	38,851,742	5,987,813	27,060,955	29,144,512	42,755,998	15,604,358
21.	Auto physical damage	64,370	569,183	512,231	121,322	(327,685)	(740,294)	531,643	(1,478,300)	368,685
22.	Aircraft (all perils)	55,296,293	9,428,032	55,612,201	9,112,124	2,918,873	4,646,752	6,460,134	10,217,615	1,559,372
23.	Fidelity	406,889	450,925	614,300	243,514	(456,064)	348,826	776,430	(640,154)	154,386
24.	Surety	30,196,304	34,686,162	35,035,939	29,846,527	(1,886,254)	(12,240,364)	(38,476,498)	54,196,407	8,466,994
26.	Burglary and theft	10	464	9	465	(709)	4,506	2,335	1,927	11,162
27.	Boiler and machinery		406,160	85,501	320,659	18,896	95,500	108,399	326,656	155,280
28.	Credit	40,070		29,555	10,515	(76,073)	(49,558)	22,477	(137,593)	114,217
29.	International				0				0	
30.	Reinsurance - Nonproportional Assumed Property	XXX	1,247,849	659,165	588,684	XXX	(1,408,260)	(1,440,575)	620,999	(5,314)
31.	Reinsurance - Nonproportional Assumed Liability	XXX	149,414,290	36,421,766	112,992,524	XXX	43,210,075	42,901,833	113,300,766	16,131,293
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	1,146,907,560	1,665,727,232	1,169,506,420	1,643,128,372	161,472,087	261,925,512	650,143,040	1,416,382,931	593,179,696
	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	(8,790,745)			(8,790,745)
1.2 Reinsurance assumed	99,133,725			99,133,725
1.3 Reinsurance ceded	20,202,134			20,202,134
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	70,140,846	0	0	70,140,846
2. Commission and brokerage:				
2.1 Direct excluding contingent		(1,014,271)		(1,014,271)
2.2 Reinsurance assumed, excluding contingent		(1,989,115)		(1,989,115)
2.3 Reinsurance ceded, excluding contingent		3,321,205		3,321,205
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	(6,324,591)	0	(6,324,591)
3. Allowances to manager and agents				0
4. Advertising				0
5. Boards, bureaus and associations		229,368		229,368
6. Surveys and underwriting reports				0
7. Audit of assureds' records		33,228		33,228
8. Salary and related items:				
8.1 Salaries	8,793,847	24,091,757	1,113,644	33,999,248
8.2 Payroll taxes	769,613	1,452,461	130,399	2,352,473
9. Employee relations and welfare	597,854	6,200,328	373,115	7,171,297
10. Insurance		8,988,711		8,988,711
11. Directors' fees		380,063		380,063
12. Travel and travel items	91,385	91,205		182,590
13. Rent and rent items	663,915	4,315,375		4,979,290
14. Equipment	5,505	136,219		141,724
15. Cost or depreciation of EDP equipment and software		4,972,423		4,972,423
16. Printing and stationery	28,627	485,346	4,934	518,907
17. Postage, telephone and telegraph, exchange and express	23,121	755,460	18,796	797,377
18. Legal and auditing	4,404	15,199,665	872,584	16,076,653
19. Totals (Lines 3 to 18)	10,978,271	67,331,609	2,513,472	80,823,352
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of $ (1,257,209)		(1,545,806)		(1,545,806)
20.2 Insurance department licenses and fees		157,475		157,475
20.3 Gross guaranty association assessments		(1,257,209)		(1,257,209)
20.4 All other (excluding federal and foreign income and real estate)		(6,625,499)		(6,625,499)
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)	0	(9,271,039)	0	(9,271,039)
21. Real estate expenses			1,023,144	1,023,144
22. Real estate taxes			(282,278)	(282,278)
23. Reimbursements by uninsured accident and health plans				0
24. Aggregate write-ins for miscellaneous expenses	31,933	44,318,147	1,108,154	45,458,234
25. Total expenses incurred	81,151,050	96,054,126	4,362,492	(a) 181,567,668
26. Less unpaid expenses - current year	593,179,696	70,969,999	210,808	664,360,503
27. Add unpaid expenses - prior year	742,764,295	89,595,018	1,544,639	833,903,952
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)	230,735,649	114,679,145	5,696,323	351,111,117
DETAILS OF WRITE-INS				
2401. All other	31,933	44,318,147	1,108,154	45,458,234
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)	31,933	44,318,147	1,108,154	45,458,234

(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)	35,823,094		36,023,400
1.1	Bonds exempt from U.S. tax	(a)	7,034		7,034
1.2	Other bonds (unaffiliated)	(a)	23,005,863		24,395,580
1.3	Bonds of affiliates	(a)			
2.1	Preferred stocks (unaffiliated)	(b)			
2.11	Preferred stocks of affiliates	(b)			
2.2	Common stocks (unaffiliated)		13,395		13,395
2.21	Common stocks of affiliates				
3.	Mortgage loans	(c)	91,176		85,131
4.	Real estate	(d)	1,592,861		1,459,978
5.	Contract loans				
6.	Cash, cash equivalents and short-term investments	(e)	14,769,564		13,449,898
7.	Derivative instruments	(f)			
8.	Other invested assets		1,387,639		1,381,232
9.	Aggregate write-ins for investment income		1,537,500		1,537,500
10.	Total gross investment income		78,228,126		78,353,148
11.	Investment expenses			(g)	4,362,492
12.	Investment taxes, licenses and fees, excluding federal income taxes			(g)	
13.	Interest expense			(h)	64,834
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)				4,427,326
17.	Net Investment Income - (Line 10 minus Line 16)				73,925,822
	DETAILS OF WRITE-INS				
0901.	Income from other sources		1,537,500		1,537,500
0902.					
0903.					
0998.	Summary of remaining write-ins for Line 9 from overflow page		0		0
0999.	Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)		1,537,500		1,537,500
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 $ 2,356,797 accrual of discount less $ 7,721,131 amortization of premium and less $ 3,886,537 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 $ 511,544 for company's occupancy of its own buildings; and excludes $ .... interest on encumbrances.
(e) Includes $ 4,193,434 accrual of discount less $ 3,380,988 amortization of premium and less $ 2,514,911 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	(1,726,894)			(1,726,894)
1.1	Bonds exempt from U.S. tax				0
1.2	Other bonds (unaffiliated)	509,425	(754,844)	(498,743)	(744,162)
1.3	Bonds of affiliates	0	0	0	0
2.1	Preferred stocks (unaffiliated)	(52,085)	(9,464)	24,665	(36,884)
2.11	Preferred stocks of affiliates	0	0	0	0
2.2	Common stocks (unaffiliated)	6,048	(6,341)	(5,611)	(5,904)
2.21	Common stocks of affiliates	3,638,355	(6,430,717)	(205,700)	(2,998,062)
3.	Mortgage loans		270,534		270,534
4.	Real estate	1,413,748			1,413,748
5.	Contract loans				0
6.	Cash, cash equivalents and short-term investments	(22,341)		(88,458)	(110,799)
7.	Derivative instruments				0
8.	Other invested assets		(1,589,602)	(191,427)	(1,781,029)
9.	Aggregate write-ins for capital gains (losses)	0	(192,768)	3,338,876	3,146,108
10.	Total capital gains (losses)	3,766,256	(8,713,202)	2,373,602	(2,573,344)
	DETAILS OF WRITE-INS				
0901.	Change in deferred gain on investment transfers from subsidiaries			3,146,108	3,146,108
0902.	Reclass realized F/X gain/loss on Japan branch to unrealized	0	(192,768)	192,768	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	(192,768)	3,338,876	3,146,108

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)	1,305	1,304	(1)
8. Receivables for securities	0	0	0
9. Aggregate write-ins for invested assets	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	1,305	1,304	(1)
11. Title plants (for Title insurers only)	0		0
12. Investment income due and accrued	0	0	0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	50,808,774	78,074,458	27,265,684
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,201,816	30,261,172	22,059,356
13.3 Accrued retrospective premium	1,632,790	4,809,459	3,176,669
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers	0	0	0
14.2 Funds held by or deposited with reinsured companies	0	0	0
14.3 Other amounts receivable under reinsurance contracts	0	0	0
15. Amounts receivable relating to uninsured plans	0	0	0
16.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0
16.2 Net deferred tax asset	759,968,456	692,434,369	(67,534,087)
17. Guaranty funds receivable or on deposit	0	0	0
18. Electronic data processing equipment and software	0	0	0
19. Furniture and equipment, including health care delivery assets	0	0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
21. Receivables from parent, subsidiaries and affiliates	0	0	0
22. Health care and other amounts receivable	0	0	0
23. Aggregate write-ins for other than invested assets	46,589,381	35,519,782	(11,069,599)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	867,202,522	841,100,544	(26,101,978)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0
26. Total (Lines 24 and 25)	867,202,522	841,100,544	(26,101,978)
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	11,675,000	0
2302. Amounts receivable under high deductible policies	11,430,098	13,155,070	1,724,972
2303. Other admitted assets	23,484,283	10,689,712	(12,794,571)
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)	46,589,381	35,519,782	(11,069,599)

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lumbermens Mutual Casualty Company (the "Company") is a mutual property and casualty insurance company domiciled in the State of Illinois. The Company is the lead company of a group of insurers and affiliates, now in run-off status, which has operated under the trade name of the Kemper Insurance Companies.

Under administrative supervision by the Illinois Department of Financial and Professional Regulation – Division of Insurance (the "Division of Insurance"), the Company is, and the Kemper Insurance Companies are, operating under a run-off plan filed with the Division of Insurance in 2004. The Company is subject to confidential corrective orders ("Corrective Orders") issued by the Division of Insurance since early 2003 (see Note 14) when the Company went into run-off status. In compliance with applicable law and Corrective Orders, respectively, the Company has not paid any dividends to policyholders (see Note 1.C.) or interest on surplus notes (see Note 13) in 2005 and 2004.

A. Accounting Practices

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

The Company's reported surplus at December 31, 2005 and 2004 reflects increases of approximately $539 million and $750 million, respectively, at those dates over what would have been reported without accounting practices prescribed or permitted by the Division of Insurance, as illustrated in the following table and as described further below:

(in millions) Prescribed or Permitted Practices	December 31, 2005	December 31, 2004	Increase/ (Decrease)
Loss Reserve Discounting	$ 468	$ 574	$ (106)
Pre-paid ULAE	45	66	(21)
Provision for Uncollectible Reinsurance	5	(4)	9
Annuity Reinsurance Contracts	12	0	12
Subsidiary GAAP Financials	9	N/A	9
Reporting of Correction of Errors	0	109	(109)
Retroactive Reinsurance Agreements	0	0	0
Subsidiary Loan	0	5	(5)
Total	$ 539	$ 750	$ (211)

NOTES TO FINANCIAL STATEMENTS

1. Loss Reserve Discounting. Pursuant to a prescribed accounting practice, 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, 2005, the total amount of the tabular and non-tabular discount, included on the balance sheet and on Schedule P, was approximately $626 million; the total was approximately $761 million at December 31, 2004. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been under the tabular discount by approximately $468 million at December 31, 2005 and $574 million at December 31, 2004. The 4.2% discount rate exceeds the Company's current investment portfolio yield (see Note 14).

2. Prepaid Unallocated Loss Adjustment Expense ("ULAE"). Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2005 and 2004 reflects as admitted assets the amounts that the Company has prepaid for claim handling services to two third-party administrators. (See Note 10.) Prepaid ULAE totaled approximately $45 million at December 31, 2005; the total was approximately $66 million at December 31, 2004. Approximately $21 million of ULAE related to these two claim service providers were expensed in 2005 and $39 million in 2004.

3. Provision for Uncollectible Reinsurance. Pursuant to a prescribed accounting practice, the Company has established a general provision for uncollectible reinsurance, net of discount, of approximately $121 million at December 31, 2005 and $150 million at December 31, 2004. The Schedule F penalty otherwise prescribed by the Manual would have been approximately $126 million at December 31, 2005 and $146 million at December 31, 2004. As prescribed by the Division of Insurance, this provision has been established using the same 4.2% discount rate as used for the Company's discounted underlying loss reserves. Such discount reduced the amount of the provision by approximately $19 million at December 31, 2005 and $22 million at December 31, 2004. (In addition, the Company wrote off approximately $8 million of reinsurance recoverables in 2005 and $3 million in 2004.)

4. Annuity Reinsurance Contracts. Pursuant to a prescribed accounting practice, in 2005 the Company recorded as part of its aggregate write-ins for other than invested assets the approximately $12 million excess amount of the estimated value of certain annuity reinsurance contracts ($14.5 million at December 31, 2005) over the expected liabilities under certain assumed reinsurance contracts ($2.7 million at December 31, 2005). The Company originally purchased the annuity reinsurance contracts more than twenty years ago in connection with such assumed reinsurance contracts and claim settlements thereunder. As of December 31, 2004, the excess amount, also then approximately $12 million, was recorded as ceded loss payables and is included in the $109 million reflected in the preceding table as correction of errors.

5. U.S. Generally Accepted Accounting Principles ("GAAP") Audited Financial Statements of Certain Subsidiaries. At December 31, 2005, the Company has four overseas insurance company subsidiaries with a statement value (surplus) of $7.0 million and three active U.S. non-insurance company subsidiaries with equity of $2.3 million. These subsidiaries do not prepare separate U.S. GAAP audited financial statements as required by the Manual beginning in 2005. The Company believes that the statutory carrying values of these subsidiaries are effectively in accordance with the carrying values that would be determined under the Manual. The Division of Insurance has granted a permitted accounting practice waiving these subsidiary audit requirements and permitting the valuation of the foreign subsidiaries on the local accounting basis adjusted to the U.S. statutory accounting for the Company's 2005 statutory financial statements.

6. Reporting of Correction of Errors. As described in Note 2 "Accounting Changes and Correction of Errors" and more fully detailed in Note 21 "Other Items", during the course of the audit of the Company's 2004 financial statements, errors aggregating $109.4 million were identified. The Manual provides technical guidance to the effect that such error corrections should have been recorded as a direct adjustment to surplus. The Company recorded $108.1 million of those adjustments through its statement of operations in the second quarter of 2005, which adjustments then resulted in a surplus reduction on the balance sheet. The net balance of the adjustments of $1.3 million, including a $2.1 million correction of an error related to an intercompany reinsurance agreement, have been recorded as direct charges to surplus. The Division of Insurance has granted a permitted practice to the Company to record in its 2005 statutory financial statements the corrections of errors through current year operations and has not required the Company to restate its 2004 financial statements. This permitted practice has no impact on the Company's reported surplus at December 31, 2005.

7. Retroactive Reinsurance Agreements Treated as Prospective. The Company recently determined that certain of its reinsurance agreements were not reduced to signed written forms within the nine-month period required by the Manual and thus should have been accounted for as

NOTES TO FINANCIAL STATEMENTS

retroactive reinsurance. The Division of Insurance has granted a permitted accounting practice to the Company for the 2005 and 2004 statutory financial statements to record these reinsurance agreements as prospective contracts. In the absence of the permitted practice, the Company's restricted surplus would have increased, although its total surplus would not have changed. The Company has not quantified what the increase to restricted surplus would have been absent the permitted practice.

8. Subsidiary Loan. Subsequent to the filing of the Company's 2004 Annual Statement, the Division of Insurance granted a prescribed accounting practice affirming the Company's accounting for a $4.7 million loan payable to its subsidiary located in Singapore. The loan was settled in 2005 through a property dividend from the subsidiary. (See Note 10, "International Operations".) The settlement, and the prescribed practice related thereto, had no impact on the financial statements of the Company as of and for the year ended December 31, 2005.

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

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

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

At December 31, 2005, all real estate owned is held for sale and is carried at the lower of cost or fair value less estimated costs to sell.

Other invested assets include notes receivable and joint venture interests. Notes receivable are carried at their unpaid principal balance, net of impairments. 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 arrangement and accordingly is carried at estimated fair value, net of anticipated costs to sell, which approximates its underlying statutory equity.

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

NOTES TO FINANCIAL STATEMENTS

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 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.

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

The Company anticipates investment income as a factor in determining premium deficiency reserves (see Note 30).

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

Because the ultimate settlement of claims is subject to future events, no single loss or 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.

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, and 10% of unsecured policyholder dividends recoverable, are excluded through a charge against surplus.

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

Accounting Changes

None.

Correction of Errors

As detailed in Note 21 "Other Items", errors aggregating approximately $109 million were identified during the course of the audit of the Company's 2004 financial statements, which audit was completed after the Company's filing of its 2004 Annual Statement. Pursuant to a permitted accounting practice (see Note 1.A.), the correction of these errors has been presented in the accompanying statutory financial statements through current year operations. During 2005, the Company reported the following corrections of errors reflected in the accompanying 2005 statutory financial statements and correspondingly increased surplus in 2005:

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1. $9.9 million was for the reversal of amounts charged directly to surplus in 2002 as a correction of error for the reconciliation of certain high deductible policies; and

2. $262 thousand was for the reversal of certain expenses of American Manufacturers Mutual Insurance Company ("AMM") that had been incurred and paid by the Company in 2004.

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).

During 2004, the Company determined that its calculation for policyholder dividend recalls (accrued retrospective premiums) 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

None.

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 $1.5 million at December 31, 2005 as reserves for discontinued operations related to the run-off of 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). Such reserve was $2.2 million at December 31, 2004. Reserves related to the run-off of the Company's discontinued international operations, which primarily entered run-off in 2003 (see Note 10), were $0 at December 31, 2005 and $0.8 million at December 31, 2004.

5. INVESTMENTS

The fair values of the Company's cash equivalents, short-term investments, bonds and unaffiliated common stocks have been determined using prices provided by the SVO, or when such values are not available from the SVO, using prices from independent pricing services that use market quotations, prices provided by market makers or estimates of fair values obtained from yield data relating to instruments or securities with similar characteristics or prices determined in good faith by the Company's engaged portfolio manager.

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.

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

In connection with agreeing to sell its $8.8 million residential mortgage loan portfolio in November 2004, the Company recognized a $1.3 million realized loss as of December 31, 2004. That result included a write-off of 7 loans with an aggregate principal balance of approximately $1.5 million. The sale excluded 17 other mortgage loans with a statutory value of $1.8 million at December 31, 2004.

The statutory value of mortgage loans at December 31, 2005 declined to $0.8 million. During 2005, in response to the Company offering a discount, certain mortgages were repaid. As of December 31, 2005, a total of 9 mortgage loans remain on the Company's books. The maximum percentage of a loan to the value of the security at acquisition was 90% for the loans whose values are carried on the Company's books. At December 31, 2005, there are no mortgages not already written off with interest overdue and none where the interest rates have been reduced. The Company has not paid any taxes, assessments or other advances on account of the mortgage loans outstanding. Including approximately $319 thousand from certain restitution payments, the Company recorded in 2005 realized gains of $271 thousand and investment income of $85 thousand from its mortgage loan portfolio.

In 2004, the Company signed a definitive agreement 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, the Company recorded an impairment writedown on the property of $5.9 million in 2004. The Company received net proceeds of $29.8 million at closing in the first quarter of 2005, and recorded a realized gain of $295 thousand.

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

The Company had no material capital commitments at December 31, 2005 or 2004. During 2004, the Company recorded impairment writedowns of $2.7 million related to certain of its investments in joint

NOTES TO FINANCIAL STATEMENTS

ventures, partnerships, and limited liability companies. The majority of the Company's investments in venture capital partnerships were sold during 2004. The Company received net proceeds of $44.7 million on these sales.

During 2005, the Company recorded a $130 thousand impairment writedown on its real estate joint venture.

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, 2005.

8. DERIVATIVE INSTRUMENTS

None.

NOTES TO FINANCIAL STATEMENTS

9. INCOME TAXES

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

		December 31, 2005		December 31, 2004
Total of gross deferred tax assets	$	763,361,440		696,013,680
Total of deferred tax liabilities		(3,392,984)		(3,579,311)
Net deferred tax asset		759,968,456		692,434,369
Deferred tax asset nonadmitted		(759,968,456)		(692,434,369)
Net admitted deferred tax asset		0		0
Increase in nonadmitted asset	$	(67,534,087)		

All deferred tax liabilities were recognized.

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

		December 31, 2005		December 31, 2004
Federal	$	(22,768,550)		14,496,170
Foreign		(1,642,110)		(2,178,526)
Federal and foreign income taxes incurred	$	(24,410,660)		12,317,644

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, 2005		December 31, 2004
Deferred tax assets:				
Reserves	$	24,834,386		43,198,231
Accrued liabilities		24,402,494		35,919,072
Loss carryforwards		544,403,562		423,049,279
Investments		58,938,405		72,536,809
Receivables		83,627,330		108,488,141
Section 197 intangibles		12,088,175		0
Other		15,067,088		12,822,148
Total deferred tax assets		763,361,440		696,013,680
Nonadmitted deferred tax assets		(759,968,456)		(692,434,369)
Admitted deferred tax assets		3,392,984		3,579,311
Deferred tax liabilities:				
Salvage and subrogation		(2,280,717)		(3,441,569)
Investments		(1,112,267)		(137,742)
Total deferred tax liabilities		(3,392,984)		(3,579,311)
Net admitted deferred tax asset	$	0		0

NOTES TO FINANCIAL STATEMENTS

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

		December 31, 2005		December 31, 2004		Change
Total deferred tax assets	$	763,361,440		696,013,680	$	67,347,760
Total deferred tax liabilities		(3,392,984)		(3,579,311)		186,327
Net deferred tax asset	$	759,968,456		692,434,369		67,534,087
Tax effect of unrealized gains (losses)						0
Changes in net deferred income tax					$	67,534,087

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, 2005
Provision computed at statutory rate	$	(37,934,750)
Prior period adjustment		(21,384,663)
Receivables		31,507,023
Loss carryforwards		(61,020,558)
Accrued liabilities		(3,823,951)
Section 197 intangibles		(13,206,746)
Reserves		7,867,533
Other		6,051,365
Total	$	(91,944,747)
Federal and foreign income taxes incurred	$	(24,410,660)
Change in net deferred income taxes		(67,534,087)
Total statutory income taxes	$	(91,944,747)

At December 31, 2005, the Company had $1,523,905,858 of operating loss carryforward which originated and expires as follows:

Origination Year		Expiration Year		Amount
2000		2020		$182,175,829
2001		2021		$405,591,861
2002		2022		$152,661,069
2003		2023		$211,667,709
2004		2024		$399,427,320
2005		2025		$172,382,070

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 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., Juris Prudent, Inc., Kemper Casualty, Inc., Kemper Casualty Insurance Company, Kemper Cost Management Holding Company, Inc., Kemper Employers Group, Inc., Kemper Environmental Managers, Inc., Kemper Financial Protection, Inc., Kemper Insurance Group, Inc., Kemper Insurance Holdings #2, Inc., Kemper International Corporation, Kemper Lloyds Insurance Company, Kemper Realty Corporation, 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., Point & Quote Insurance Services, Inc., Specialty Insurance Managers, Inc., Specialty Resource Risk Services, Inc., Specialty Surplus Insurance Company, Universal Bonding Holding Company, and UBIC.

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

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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. The Company and affiliates 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." Joint ventures with and notes receivable from subsidiaries or affiliates are disclosed in Schedule BA. Reinsurance relationships between the Company and its affiliates are disclosed in Schedule F. Certain commitments and contingencies are set forth in Note 14.

Significant Transactions in 2005 and 2004

AMM Relationship

AMM is an associated mutual insurance company that shares with the Company common management and a substantially overlapping board of directors. AMM has been one of the Kemper Insurance Companies for over 50 years. During most of that time, AMM quota share pooled its business with the Company. Effective December 31, 2003, however, the pooling agreement was amended so that 100% of all business written by AMM has been ceded to the Company. (See Note 26.) At the same time, the Company assumed most of AMM's liabilities, agreed to perform for AMM all insurance policy-related obligations including handling and paying claims, and issued a Company policy to each holder of a policy ever issued by AMM, including any policy no longer in force but excluding any policy that is cut-through reinsured by Unitrin (see "*Unitrin Kemper Auto & Home: Renewal Rights and Cut-Through*" below in this Note 10). The additional Company policy is substantively identical to the policy previously issued by AMM, although the Company policy is non-participating and non-voting with respect to the Company's corporate governance. The additional Company policy assures affected AMM policyholders that their claims will be treated equally with the claims of other Company policyholders not only in the event of a managed run-off of the Company and AMM (see Note 14) but also in the event of any insolvency proceedings with respect to the two companies. AMM remains liable for its policy liabilities in the event the Company does not comply with all the terms of the affected policies. AMM has approximately $435 million in reinsurance due from the Company as of December 31, 2005.

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 January 1, 2005 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. In 2005, SSIC deposited the $15.0 million reinsurance premium it received from its affiliates into trust for the benefit of the third-party insurer to collateralize the reinsurance obligation. The $15.0 million premium decreased the Company's surplus by the same amount in 2005 as the asset is non-admitted.

Broadspire Transaction and Claim Handling

In 2003, the Company sold its NATLSCO, Inc. subsidiary and related claim service operations to Broadspire LLC. Based on purchase price adjustment provisions in the sale contract, the Company initially asserted a claim against Broadspire for $22.9 million. In June 2005, a binding arbitration ruling awarded the Company $23.2 million on its claim against Broadspire that was carried at $17.9 million at December 31, 2004. Broadspire then paid $19.0 million in cash and asserted an offset right to the remaining $4.2 million. The Company disputes owing the liability upon which Broadspire asserted an offset right, and the Company recovered the disputed amount by offsetting other monies otherwise owed to Broadspire. The Company's surplus at December 31, 2005 reflects a benefit of $5.3 million due to the ruling. Also in connection with the 2003 sale agreement, Broadspire did pay to the Company $36.8 million in 2004, which amount correspondingly increased the Company's surplus and liquidity at that time.

In connection with the 2003 transaction, the Company 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, 2004. 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 accounting practice more

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fully described in Note 1, the Company reflects as an admitted asset the remaining prepaid amount for claim handling services; that amount has declined to approximately $50 million as of December 31, 2004 and approximately $33 million as of December 31, 2005.

Kemper Corporation

Kemper Corporation ("KC") was a former affiliate of the Company acquired by Zurich Insurance Company ("Zurich") in 1996. Dating from before that acquisition, there were certain contractual tax indemnification obligations between the Company and KC related to an earlier corporate transaction and a corporate insurance indemnification owed by KC to the Company for certain reinsurance arrangements dating from decades ago. The Company and Zurich/KC fully settled those former obligations in 2005; the settlement resulted in surplus and liquidity benefits for the Company of $16.8 million and $10.0 million, respectively, in 2005.

GE Reinsurance Company

In 1998, the Company sold to GE Insurance Solutions ("GEIS") the Company's professional reinsurance subsidiary, Kemper Reinsurance Company, and that former Company affiliate was then renamed GE Reinsurance Company ("GE Re"). Dating from before that sale, there were and are intercompany obligations between the Company and the renamed GE Re, including numerous reinsurance arrangements. Under one of those reinsurance arrangements, GE Re reinsured certain aviation pool exposures in the U.S. and Canada. In addition, the 1998 sale created certain tax indemnification obligations between the parties. In 2005, the Company and GE Re commuted the aviation reinsurance and settled all open matters relating to the tax indemnification obligations. As a result, the Company recorded surplus and liquidity benefits of $3.8 million and $5.8 million, respectively, in 2005. The Company also has other reinsurance recoverables from GE Re and its affiliates totaling $238 million at December 31, 2005 (see Note 23).

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.

Subsidiary Mergers and Dissolutions

During 2005, the Company voluntarily dissolved 20 of its direct and indirect non-insurance company subsidiaries, primarily non-operating holding companies and insurance agencies that no longer served a purpose since the Company is in run-off. These actions simplified the Company's organization chart and reduced slightly certain operating expenses. The Company is in the process of voluntarily liquidating two of its international insurance company subsidiaries. (See *International Operations* below in this Note 10.)

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 another wholly-owned subsidiary of the Company, American Motorists Insurance Company ("AMICO"). 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

In 2003 and 2002, the Company had entered into various renewal rights transactions pursuant to which the Company and its affiliates were to receive then current 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 2005 and 2004 totaled $381 thousand and $44.6 million, respectively. (See "Unitrin Kemper Auto & Home: Renewal Rights and Cut-Through" below in this Note 10.)

Of the $17.6 million carried on the Company's December 31, 2004 balance sheet as a receivable from the St. Paul Travelers Companies in connection with those companies' purchase from the Company of renewal rights to certain lines of business in 2003, the St. Paul Travelers Companies paid to the Company approximately $16.7 million in June 2005, following resolution of unrelated issues between the two organizations in the second quarter. The Company expects to receive no less than the remaining $874 thousand in 2006.

Unitrin Kemper Auto & Home: Renewal Rights and Cut-Through

The 2004 renewal rights revenue total also included $35.4 million received from Unitrin, Inc. ("Unitrin") and its subsidiary, Trinity Universal Insurance Company ("Trinity"), in connection with the sale in 2002 of the Company's and its affiliates' U.S. personal lines business. Unitrin today operates this business under the name Unitrin Kemper Auto & Home. Of the Unitrin amount for 2004, $31.5

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million was recorded as revenue and benefited the Company's surplus in the third quarter. The amounts paid in the third quarter of 2004 were primarily due to a mutual agreement to settle future contingent commission payment obligations owed to the Company. Pursuant to this agreement in 2004, Unitrin also extended its and its affiliates' five-year license to use the Kemper name in the acquired personal lines businesses to 100 years.

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 then in-force or previously issued policies nor renewal rights to policies issued in Alaska, Michigan, Delaware, or Arkansas or to policies produced by independent agents whose authority to write new business had been terminated prior to April 19, 2002. 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, 2005, approximately $49 million of the Company's gross liabilities are fronted policies that are 100% reinsured by (ceded to) Trinity. Not only are these reinsured policies fully administered (including claims handled) by the Unitrin subsidiaries, such 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.

Berkshire Cut-Through; Bond Facility; Claims Handling

In early 2003, shortly after the Kemper Insurance Companies were downgraded to below an "A" level, National Indemnity Company ("NICO"), a member of the "AAA" rated Berkshire Hathaway Group ("Berkshire"), provided the Company and its affiliates with immediate access to cut-through agreements issued by NICO. The cut-through agreements were applied to certain standard commercial and specialty lines policies of insurance in-force as of December 23, 2002 and to certain new policies issued by certain of the Kemper Insurance Companies on and after December 23, 2002 until September 30, 2003. With respect to each policy to which the NICO cut-through agreement applies, the cut-through allows a Kemper insured to directly submit claims to NICO in the event the respective Kemper Insurance Company (as the issuer of the policy) is unable to pay such claims as a result of its insolvency or a court or regulatory order prohibiting claim payments due to the issuing company's financial condition. From inception of the use of the cut-throughs in late December 2002 through 2005, Kemper incurred net cut-through agreement fees of approximately $15 million, substantially all of which was incurred by the Company during 2003 and prior.

As an agreed condition for NICO to provide the cut-through agreements, the Company and its affiliates immediately provided collateral available to NICO if and to the extent NICO makes any payments under any cut-through agreements. The collateral includes offset rights granted to NICO for reinsurance proceeds payable by either NICO or its affiliate, National Fire & Marine Insurance Company ("National Fire"), to the Company or its affiliates; a collateral trust initially in an amount of $251.1 million as of the end of June 2003, which amount has been and 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 $22.4 million at December 31, 2005 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. The investment was reduced to $246.9 million in December 2005 with cash in the amount of the reduction being released to the Company in accordance with existing agreements. If NICO makes no payments under the cut-through agreements, then of the $246.9 million of pledged obligations, $100.0 million matures in March 2025, while the remaining $146.9 million is subject to mandatory redemption annually as 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. Because the Berkshire corporate obligations have been pledged as collateral to Berkshire, the Company does not have the intent or, in the absence of a voluntary agreement from Berkshire, the ability to dispose of the obligations prior to maturity or redemption. At current claim payment rates, the trust assets will be reduced to zero in early 2006. At December 31, 2005, $154.2 million of the Company's gross policy liabilities are protected by the NICO cut-through. (Note 23 and Schedule F show that the Company cedes to the Berkshire Hathaway Group (group 31) liabilities totaling $261.6 million at December 31, 2005. Most of that amount also serves as security for any payments that may be made under any NICO cut-through agreements.)

NICO also provides, for initial and annual fees, an appeals bond facility that the Company and its affiliates use primarily in connection with litigated claims. The Company fully collateralizes the appeal bonds with an investment in a Berkshire corporate obligation (Schedule D admitted asset) purchased from and pledged to Berkshire. At December 31, 2005, the Company has pledged $42.5 million of its assets as collateral for this purpose.

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In connection with a now commuted reinsurance arrangement in 2001, the Company entered into a long-term claim administration agreement with National Fire for the servicing of most of the Company's and its affiliates' existing asbestos and environmental claims. The Company paid $27.5 million in advance for the future servicing of such claims. In accordance with the prescribed accounting practice more fully described in Note 1, the Company reflects as an admitted asset the remaining prepaid amount for claim handling services; that amount has declined to approximately $12.2 million as of December 31, 2005 and $16.4 million as of December 31, 2004.

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 a purchase price 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 $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 charge ($2.7 million net of discount) to its surplus as of December 31, 2004. In the fourth quarter of 2005, $3.8 million of the $4.0 million purchase price escrow from the September 30, 2003 transaction was released back to the Company. SeaBright and the Company are discussing the reasons for the withholding of the approximately $221 thousand in the escrow account, which amount remains an admitted asset on the Company's balance sheet at December 31, 2005.

International Operations

The Company has had seven international insurance operations in six countries. These 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. These operations accounted for approximately $47 million of the Company's surplus at December 31, 2005, down from approximately $56 million at December 31, 2004. The decline primarily was due to the repatriation to the Company from certain of the overseas operations of approximately $12.5 million of cash.

As of both December 31, 2005 and 2004, the two Canadian branches together have more than $40 million of assets in excess of recorded liabilities. Approximately $47 million of the $48.1 million of cash and invested assets in Canada at December 31, 2005 are encumbered in trust. The trust is required by Canadian regulators who must approve any releases of the vested assets from the trust, including releases to pay claims, and who are currently approving payments of the branches' liabilities from vested trust assets. In 2005, using vested assets, the Company settled a $21 million liability it owed to the purchaser of its personal lines business in Canada (that purchase was from four years earlier, in 2001), and as a result of the 2005 settlement, the Company, and its Canadian branch, recorded a surplus benefit of approximately $3 million. A goal of closing the branches is an increase in the Company's liquidity which would be the consequence of the repatriation to the Company of any surplus amount held in Canada.

The AMICO branch in Canada is currently the subject of an assumption reinsurance transaction designed to repatriate to the U.S. in 2006 approximately $5.5 million, at a surplus cost, recorded as of December 31, 2005, of approximately $500 thousand. In connection with this pending Canadian transaction, at year-end 2005, the Company commuted certain non-Canadian reinsurance contracts in late 2005, resulting in a surplus gain to the Company of $4.6 million at a liquidity cost of $4.0 million.

In 2005, the Company received from its Japanese branch repatriation of approximately $2.2 million and from its Singapore subsidiary dividends consisting of cash of $4.0 million and return and cancellation of a $4.7 million loan from the subsidiary to the Company. None of these receipts impacted the Company's surplus, although they increased liquidity in the U.S. for the Company by approximately $6.3 million. The Japanese branch was fully liquidated in 2005. The remaining approximately $500 thousand in Singapore was transferred to the Company as the Singapore subsidiary was liquidated in early 2006 with no impact on surplus.

In the second half of 2005, the Company's Bermuda subsidiary, the Seven Continents Insurance Company completed a solvent scheme initiated in 2004; paid the Company $5.9 million pursuant to, and in connection with the commutation of, its separate cell reinsurance agreement; entered formal voluntary liquidation proceedings; and distributed to its shareholders all its assets other than approximately $100 thousand to cover final closure expenses anticipated into the second quarter of 2006. The Company received from this distribution net reinsurance recoverables valued at approximately $500 thousand at December 31, 2005 and cash of $2.4 million in 2005. The distribution did not impact surplus.

The Company is exploring reinsurance and/or sale alternatives for its Australian and Belgium subsidiaries; however, the Company has not entered into any agreements with respect to divesting these subsidiaries. The Company has guaranteed the obligations under policies issued on or after January 1, 2002 by its Belgium subsidiary, Kemper, S.A. (Societe Anonyme), and obligations under

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policies issued by its Australian subsidiary, Kemper Insurance Company Limited. Most of those Belgium and Australian policies are also reinsured by the Company under excess of loss reinsurance agreements for any net losses in excess of $50 thousand.

UBIC Surety Bonds

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 2005, primarily prior to December 31, 2003. 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 prior to 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, 2005 and 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.

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Capital Contributions

During 2004, the Company made capital contributions to Kemper International Corporation of $1.6 million and LGA-3, Inc. of $26 thousand primarily to fund cash flow operating needs. The Company made no contributions to subsidiaries during 2005.

Stockholder Dividends and Return of Capital

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

The Company recorded cash dividends and return of capital from the following subsidiaries during 2005 and 2004:

		2005		2004
		(in thousands)		
Kemper International Corporation	$	7,776		0
AMICO[1]		0		161,664
Total	$	7,776		161,664

[1]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.

Intercompany Transactions

The Company reported the following amounts due from (to) affiliates at December 31, 2005:

Affiliate		December 31, 2005
AMICO		$ 1,314,519
AMM		622,843
UBIC		(13,095,272)
SSIC		(2,247,117)
Kemper Casualty Insurance Company		214,699
Kemper Lloyds Insurance Company		12,726
All other affiliates		(14,059)
Total receivable from (payable to) affiliates		$ (13,191,661)

The Company's policy is to settle intercompany balances with domestic affiliates on a quarterly basis, except with respect to UBIC. Of the amount shown in the preceding table for UBIC, $11.9 million is an unfunded capital contribution that the Company has agreed to fund only as and when needed by UBIC to cover cash outflows.

The Company provides certain facilities and administrative services to its subsidiaries and affiliates.

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Impairment Write-downs

The Company recognized impairment write-downs as realized capital losses for the following investments in subsidiaries during 2005 and 2004:

Company			2005[1]		2004[2]
Kemper International Corporation		$	6,430,717		0
LGA-3, Inc.			0		25,680
Kemper Employers Group, Inc.			0		5,165,888
		$	6,430,717		5,191,568

[1] In 2005, the recorded impairment was primarily due to dividends received by the Company that reduced the Company's investment in the international operations.

[2] In 2004, 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.

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 $9.2 million of long-term disability self-insured obligations owed to certain employees. As a result, the Company recognized a surplus benefit of $6.9 million in 2004.

During 2004, the Company funded and accrued a total of $21.5 million into its non-contributory qualified defined benefit pension plans. 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 $107.0 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

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In 2004, the Company announced that it would cease matching contributions to the Company's 401(K) plan beginning 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 284 employees at December 31, 2005 from 340 at December 31, 2004. 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. The retention payments for 2005 and 2004 totaled $5.3 million and $2.6 million, respectively. Payments under this retention plan satisfied a portion of the Company's obligations to pay in February 2006 otherwise guaranteed annual bonuses under certain employment agreements with approximately 8 employees; all remaining guaranteed annual bonus payments to those employees totaled $262 thousand and were paid in February 2006.

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 run-off plan. The program also takes into account payments under the aforementioned employment agreements and retention plan. Payments under the incentive plan totaling $2.7 million were accrued at December 31, 2004 and were paid in March of 2005. At December 31, 2005, the Company has accrued anticipated first-quarter 2006 payments for this program totaling $2.4 million.

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. In the fourth quarter of 2004, the Company paid $0.2 million to settle those liabilities, which resulted in a surplus increase of $2.0 million as of December 31, 2004. The Company carried deferred compensation liabilities of approximately $1.2 million at December 31, 2005 and $1.7 million at December 31, 2004. During 2005, the Company reduced its deferred compensation liabilities, which resulted in a surplus increase of $0.5 million.

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 2005 and 2004 totaled $2.4 million and $20.5 million, respectively, and severance liabilities recorded at December 31, 2005 and 2004 totaled $0.4 million and $0.7 million, respectively.

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, 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, 2005, unassigned surplus was reduced by nonadmitted asset values primarily related to deferred taxes and other assets of $867,202,522 and an unrealized foreign exchange loss of $5,339,676.

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The Company has the following surplus notes issued and outstanding at December 31, 2005:

			Amounts in thousands				
Interest Rate/ Description	**Issue Date**	**Maturity Date**	**Par or Face Value**	**Carrying Value of Surplus Notes**	**Interest Paid 2004-2005**	**Total Interest Paid**	**Accrued Interest 12/31/05**
9.15% 30-Year Notes	06/24/96	07/01/2026	$400,000	$399,123	$ 0	$238,612	$ 0
8.30% 40-Year Notes	11/21/97	12/01/2037	200,000	199,507	0	83,461	0
8.45% 100-Year Notes	11/21/97	12/01/2097	100,000	99,726	0	42,485	0
Total			$700,000	$698,356	$ 0	$364,558	$ 0

The unamortized discount at issuance has been charged against surplus. The unamortized discount amounted to $1,644,402 at December 31, 2005 and 2004.

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 policyholders' surplus of the Company. The Director has denied the Company’s 2005 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, 2005 is $187,037,500.

14. CONTINGENCIES

A. Contingent Commitments

Affiliate and Other Guarantees

The Company has provided guarantees of certain policy liabilities of its Australian and Belgium subsidiaries, has issued its own policies to most policyholders of AMM, and has intercompany balances due certain affiliates. (See Note 10.) The Company is contingently liable for $138.5 million related to structured settlements annuities. (See Note 27.)

Securities on Deposit/Encumbered Assets

Approximately $1.1 billion of the Company’s cash and invested assets at December 31, 2005 are encumbered by being on deposit or held in trust or escrow arrangements, compared with $1.5 billion one year earlier, as shown in the following table:

(in millions)		December 31, 2005		December 31, 2004
Special Deposits/Encumbered Assets				
California State Deposit		$ 538		$ 823
Other State Deposits		155		173
NICO Cut-Through Collateral		269		356

NOTES TO FINANCIAL STATEMENTS

NICO Appeal Bond Collateral		43		53
Canada Deposits		42		63
All Other		26		64
		1,073		1,532
Unencumbered Assets:				
Cash, Bonds and Stocks		881		1,099
Receivables for Securities		32		2
Other Assets		34		88
		947		1,189
Cash and Invested Assets		$2,020		$2,721

The majority of the encumbrances are deposits with state insurance departments, with California accounting for the majority of that amount, or $538.3 million at December 31, 2005. During 2005, the Company received releases of encumbered assets from states totaling approximately $303 million. There can be no assurance that there will be additional releases.

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, 2005, the Company had pledged invested and other assets of $44.1 million for such bonds, most of which are issued by NICO. (See Note 10.)

Approximately $269.3 million of the Company's assets at December 31, 2005 provide collateral for Berkshire affiliates related to the NICO cut-through agreements. (See Note 10.) This amount reflects a $86.8 million reduction from a year earlier, as the majority of these encumbered assets are subject to release to the Company periodically as claim payments are made on policies to which the NICO cut-through agreements are attached.

The Company is contingently liable to provide up to an estimated additional $26.8 million in collateral due to ratings triggers in reinsurance agreements where it is a reinsurer. Of this amount, $4.2 million has been funded with assets of an unrelated third party, Alea Bermuda Ltd. ("Alea"), for business where the Company from late 1999 to year-end 2001 fronted assumed reinsurance contracts in the U.S. for Alea. Alea's insurance ratings fell to below the "A" level in 2005, and Alea and its affiliates recently went into run-off status and are undergoing related operational changes; however, Alea's reinsurance obligations to the Company for the fronted liabilities are secured by collateral trust assets of Alea in the amount of $170.1 million at December 31, 2005. Alea also has handled claims on behalf of the Company since 1999 on both the fronted liabilities and, at December 31, 2005, $137.3 million of other assumed reinsurance liabilities written by the Company from 1997 through 1999. The Company is dependent on Alea for the claim handling and its related accounting.

Approximately $4.9 million of the Company's invested assets at December 31, 2005 are in a collateral trust for the benefit of SeaBright Insurance Company related to a reinsurance agreement. (See Note 10.)

In addition to the encumbrances applicable to the Company's cash and invested assets which are reflected in the preceding table and in Schedule E, Part 3, Special Deposits, the Company has certain reinsurance related assets which have been pledged or otherwise encumbered. Such encumbered assets include funds held by or deposited with reinsured companies ($19.4 million, as shown on line 13.2 on the Company's balance sheet at December 31, 2005), certain reinsurance recoverables that serve as additional security for the NICO cut-through (see Note 10), and reinsurance recoverables for claims paid and to be paid by certain Markel Corporation subsidiaries related to business written by companies that the Company acquired from Markel in 1998 and 1999 ($5.9 million at December 31, 2005). In addition, one of the Company's wholly owned subsidiaries, SSIC, which was a Markel subsidiary until January 2000, also has granted to a Markel entity a security interest in SSIC's reinsurance recoverables related to claims from before 2000 that

NOTES TO FINANCIAL STATEMENTS

Markel is responsible for handling; SSIC's related encumbered reinsurance assets totaled $148.2 million at December 31, 2005.

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 2005 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, 2005. As of December 31, 2005, the Company has accrued a liability of $4.5 million for such guaranty fund assessments. The Company also has established a liability for premium and loss based assessments of approximately $43 million as of December 31, 2005, compared with approximately $56 million as of December 31, 2004.

C. Gain Contingencies

None.

D. All Other Contingencies

Ratings

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

The downgrades to below A- beginning in late 2002 effectively ended the Company's and its affiliates' ability to write most new commercial lines business or retain existing policyholders. In early 2003, the Company attempted to continue marketing commercial insurance policies by providing certain of the policies with the benefit of cut-through agreements from NICO. 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 three 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. 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

NOTES TO FINANCIAL STATEMENTS

submitted. The Company updates the plan based on current information from time to time. 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, the volume of which has declined in 2005 from the level in 2004; to conclude other surplus-enhancing transactions; to commute certain 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; agreements with regulators in various jurisdictions; and the absence of significant additional disputes not only with reinsurers but also with creditors, including insureds and certain states, which could involve judicial or other actions to seek either to force the Company to collateralize its unsecured obligations or to not timely release collateral back to the Company. Therefore, no assurance can be given that the plan will continue to 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 three 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). 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. In addition, in 2005, the Company entered into a voluntary Agreed Order with the Tennessee Division of Insurance for its license to be suspended with the Company permitted to maintain its license, but not permitted to write any new business. Florida and Alabama have also sought to unilaterally suspend the Company's certificates of authority. The Company is resisting 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 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 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. The Company currently has no designated chief financial officer, although it has other officers and consultants in its financial department. The Company also hired new personnel to head its claim and reinsurance departments in 2005.

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 $9 million per month. In addition, in light of the durations and interest rates of the Company's existing fixed income portfolio, current market conditions, and the Company's anticipated liquidity needs, management currently projects that the Company's investment portfolio return will remain below the 4.2% rate that the Company uses to discount its

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loss reserves pursuant to an accounting practice prescribed by the Division of Insurance. In each of 2005 and 2004, however, the Company successfully executed surplus-enhancing transactions and operational improvements that together produced benefits to surplus that covered a substantial portion of the reduction in surplus caused by expenses exceeding revenues and by additions to loss reserves during the years. Although involving use of liquidity (see *Managing Liquidity* below), policy buybacks and other settlements by the Company of liabilities for less than carried reserves remain a primary focus of the Company's management and its run-off plan at this time.

During 2005 and 2004, respectively, the Company added approximately $90 million and $136 million to its net discounted reserves. The reserve increase in 2005 included $61.2 million due to 2004 audit-related reserve adjustments. Despite the reserve strengthening, there can be no assurance that additional material reserve strengthening will not be required in future periods.

The Company's statutory surplus also benefited in 2005 by approximately $55 million as management substantially completed a reevaluation of, and collected, certain previously non-admitted assets, primarily premiums in collection, in light of enhanced collection efforts and application of collateral held by the Company.

At December 31, 2005, the Company's balance sheet shows that its assets exceed its liabilities by $168.3 million, a $3.1 million decrease in surplus from the level reported in the 2004 statutory financial statements. Management believes that successful surplus-enhancing initiatives in 2006 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 2005 surplus reflected certain one-time events. Management remains opportunistic for transactions that can increase or maintain surplus and/or liquidity. However, if the Company is unable to maintain adequate levels of statutory surplus, which under its run-off plan requires the continuous generation of surplus from transactions to offset the monthly surplus diminution from operating expenses and loss reserve discount amortization, then the commercial run-off plan may end with the Company being placed into a formal proceeding.

The Company's run-off initiatives include buybacks and novations of commercial, usually long-tail, policies where the policyholders are amenable to releasing the Company and its affiliates from reserve or other liabilities. Additionally, the run-off initiatives include assumed reinsurance commutations which are similar to direct policy buybacks, in that in both types of transactions the Company, whether in the role of insurer or reinsurer, can realize surplus, liquidity, or other benefits as the Company is released from its liabilities. During 2005, policy buybacks, novations and assumed reinsurance commutations collectively added approximately $96 million to the Company's surplus, for a benefit to liquidity of approximately $2.0 million. In 2004, they added approximately $156 million to surplus for a cost to liquidity of approximately $85 million. The change from a cost to liquidity in 2004 to a benefit to liquidity in 2005 can be attributed to greater reinsurance recoveries on 2005 settlements, the execution of one 2005 settlement using illiquid assets from a regulator controlled trust, and a greater number and degree of 2005 novation settlements that were liquidity positive, due to certain insureds owing the Company more on their accelerated ultimate premium obligations than discounted liabilities owed by the Company to those insureds. Buybacks, novations, and assumed reinsurance commutations resulted in the Company's gross and net reserves declining by approximately $306 million and approximately $136 million, respectively, in 2005 and by approximately $513 million and approximately $354 million, respectively, in 2004. Combined with other transactions as well as normal claim payments and other settlements, including certain other reinsurance commutations, the Company's total gross and net loss reserves were $4.1 billion and $2.0 billion, respectively, at December 31, 2005, compared with $5.8 billion and $2.8 billion, respectively, at December 31, 2004.

Managing Liquidity

The Company's net cash outflows, consisting principally of claim payments (net of reinsurance collections and releases of related encumbered assets), exceed substantially its cash inflows resulting from investment income and the limited premium income the Company continues to receive. There are a number of factors that could adversely affect the Company's liquidity position and its adequacy. Accelerated claim payments or imposition of requirements to secure future 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

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be initiated by the Division of Insurance significantly before the Company's projected liquidity would reach zero. The Company's reported approximately $947 million of unencumbered assets at December 31, 2005 shown in the table under ***Securities on Deposit/Encumbered Assets*** above in this Note 14 includes approximately $200 million that, although unencumbered, are not necessarily immediately available funds, as this amount consists of such items as assets held in subsidiaries and working capital requirements.

The Company is addressing potential future liquidity challenges by taking a number of actions, including, but not limited to, seeking the release of what the Company believes is excess collateral held by various governmental agencies, merging or dissolving subsidiaries, converting illiquid assets to liquid assets, negotiating liquidity-enhancing novations, continuing to collect on its reinsurance, and evaluating the possibility of reinsurance commutations. The Company's run-off plan anticipates that portions of state deposits will continue to 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 encumbered assets.

In 2005, the Company received net proceeds of $29.8 million at the closing of the sale of its home office complex, recording a realized gain on the sale of $0.3 million. In 2004, in anticipation of the sale, the Company had recognized a $5.9 million charge to surplus. In connection with the home office sale, the Company leases approximately 80,000 square feet at an annual cost of $1.6 million.

The Company was repaid $18.0 million of principal and $431 thousand of interest during 2005 in complete satisfaction of an outstanding (and at that time, illiquid) loan to one of its former independent insurance agencies. The repayment in 2005 resulted in a $424 thousand surplus gain.

Also to supplement liquidity, the Company during 2004 merged five of its subsidiaries into another wholly-owned subsidiary, AMICO, and during 2005 dissolved 20 other non-insurance company subsidiaries. (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 in 2004. 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 $900 million of liquidity to the Company during 2005 and approximately $1 billion of liquidity to the Company during 2004. Gross reinsurance recoverables totaled $2.2 billion at December 31, 2005 (net of a $121.0 million reinsurance provision - see Note 1), down from $3.3 billion at December 31, 2004, largely due to reductions in claim payment levels and the Company managing down its policyholder liabilities.

The Company recognizes the general principle that commutations of ceded reinsurance, if executed, could substantially increase liquidity. Reinsurance commutations, however, would also be anticipated both to decrease surplus, since commutations involve present value or other discounting in return for cash, and to increase the costs of any future adverse development, since the reinsurers would no longer share in such developments. 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, the Company issued $700.0 million in aggregate principal amount of surplus notes in 1996 and 1997. The Company is required to seek the approval of the Director of the Division of Insurance to make each and any semi-annual payments of interest on the surplus notes. Beginning in 2003, the Director of the Illinois Division of Insurance has denied the Company's requests for payment of interest on the surplus notes. Following the non-payment of interest in 2003, several lawsuits were filed in the Circuit Court of Cook County, Illinois by certain holders of surplus notes aggregating approximately $368 million and naming the Company, various directors or former directors of the Company and Kemper Commercial Insurance Company, a now dissolved subsidiary of the Company, as defendants. One case was voluntarily dismissed by the plaintiff, and the other two were consolidated in 2004. This lawsuit alleges that

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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 any changes with respect to the financial condition of the Company.

15. **LEASES**

The Company leases office space and equipment under various non-cancelable operating lease agreements. Rental expense for 2005 and 2004 was $5,121,014 and $15,116,062, respectively.

At December 31, 2005, the total aggregate minimum rental payments on operating leases is $22,078,332, and future minimum rental payments for the next five years are as follow:

(in thousands)

Year Ending December 31		Minimum Payments		
2006			$ 7,413	
2007			6,362	
2008			5,022	
2009			2,703	
2010 and thereafter			578	
			$22,078	

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**

For the year ended December 31, 2005, the Company's total incurred losses and LAE related to the September 11 events were as follows:

Gross losses and LAE incurred	$	219,473,116
Reinsurance losses and LAE ceded		(178,783,035)
Net losses and LAE incurred	$	40,690,081

The incurred losses are primarily attributable to the commercial multiple peril and other liability lines of business. As of December 31, 2005, the Company has recovered a total of $155.2 million from its reinsurers, against $191.1 million in total claim payments.

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21. OTHER ITEMS

Subsequent to the completion of the Company's 2004 Annual Statement, as filed with the Division of Insurance on or about March 1, 2005, 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 filing. These additional facts affected the estimates inherent in the process of preparing the 2004 Annual Statement and are referred to as Type I subsequent events in SSAP No. 9, *Subsequent Events*. In accordance with SSAP No. 9, all information that becomes available prior to the issuance of the statutory financial statements relating to a material Type I subsequent event shall be used by management to determine the related accounting estimate.

As such, the Company has recorded the following adjustments in the audited statutory financial statements which are different from the amounts as filed in the Company's 2004 Annual Statement:

	Net Loss	Surplus
As filed in 2004 Annual Statement	$ (65,968,578)	$171,434,880
2004 Adjustments related to:		
Market value declines identified subsequent to year end resulting in other-than-temporary impairment of securities:		
Bonds	(899,611)	(899,611)
Other invested assets	(1,551,705)	(1,551,705)
Other-than temporary impairments or adjustments related to new facts, circumstances or decisions made by the Company relating to reinsurance:		
Misapplication of facts related to over-cessions of losses and allocated loss adjustment expenses on certain reinsurance contracts	(10,592,581)	(10,592,581)
Misapplication of facts related to under-accrual of ceded reinsurance premiums on certain reinsurance contracts, net of related commissions and expenses	(11,603,950)	(11,603,950)
Provision for additional under-accrued reinsurance premium on certain contracts	(3,075,000)	(3,075,000)
Adjustments related to uncollectible reinsurance balances	(358,322)	(358,322)
Adjustment to the provision for reinsurance	-	2,785,369
Misapplication of facts related to certain reinsurance annuity contracts	3,563,811	3,563,811
Misapplication of facts related to development of certain losses and loss adjustment expenses	(37,077,780)	(37,077,780)
Other adjustments:		
Other - Misc	(6,051,648)	(8,058,776)
Correction of 2003 errors	-	(42,582,341)
Total of all adjustments	(67,646,786)	(109,450,886)
As per audited statutory financial statements	$(133,615,364)	$ 61,983,994

As permitted by the Division of Insurance (see Note 1.A.), the Company has recorded the above adjustments during 2005 through current year operations in the Statement of Income. Accordingly, these adjustments are included within the Company's 2005 Annual Statement.

22. EVENTS SUBSEQUENT

None.

NOTES TO FINANCIAL STATEMENTS

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, 2005, 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.		$ 9,770
			8 Group Total		9,770
13-5124990	12	19380	American Home Assurance Co.		449
06-0384680	12	11452	Hartford Steam Boil Inspection & Insurance Co.		503
13-5540698	12	19429	Insurance Co. of the State of Pennsylvania		1,769
25-0687550	12	19445	National Union Fire Ins Co. of Pittsburg		1,370
13-5616275	12	19453	Transatlantic Reinsurance Co.		26,651
			12 Group Total		30,742
06-0949141	31	33197	Cologne Reinsurance Co. of America		1
13-2673100	31	22039	General Reinsurance Corp.		113,240
47-6021331	31	20079	National Fire & Marine Insurance Co.		147,829
13-1988169	31	34835	National Reinsurance Corp.		507
13-2930109	31	22047	North Star Rein Corp.		18
			31 Group Total		261,595
38-0855585	79	22012	Motors Insurance Corp.		5,472
			79 Group Total		5,472
06-0383750	91	19682	Hartford Fire Insurance Co.		9,024
			91 Group Total		9,024
47-0574325	98	32603	Berkley Insurance Co.		31,943
53-0067060	98	21784	Firemen's Insurance Co. of Washington D.C.		626
41-1232071	98	31003	Tri State Insurance Co. of Minnesota		630
			98 Group Total		33,199
39-0264050	111	21458	Employers Insurance of Wausau		6,013
04-1543470	111	23043	Liberty Mutual Insurance Co.		623
			111 Group Total		6,636
13-2781282	158	25070	Clearwater Ins Co.		25,392
23-2745904	158	10019	Clearwater Select Ins Co.		8,690
22-1964135	158	21105	North River Insurance Co.		2
47-0698507	158	23680	Odyssey America Reinsurance Co.		5,737
13-3306163	158	19160	Old Lyme Ins Co. of RI Inc.		361
			158 Group Total		40,182
06-0839705	181	82627	Swiss Reinsurance Life & Health America Inc.		6,541
13-1675535	181	25364	Swiss Reinsurance America Corp.		188,215
			181 Group Total		194,756
FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER		AGGREGATE RECOVERABLE (000 omitted)
75-0620550	215	19887	Trinity Universal Insurance Co.		$ 52,767

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13-5460208	215	25909	Unitrin Preferred Ins Co.		(12)
			215 Group Total		52,755
36-2114545	218	20443	Continental Casualty Co.		20,472
13-5010440	218	35289	Continental Insurance Co.		10
36-3976913	218	10071	Encompass Insurance Co. of America		564
			218 Group Total		21,046
23-1620930	229	12319	Philadelphia Rein Corp.		433
41-0451140	229	67105	Reliastar Life Insurance Co.		75,984
			229 Group Total		76,417
48-0921045	350	39845	Employers Reinsurance Corp.		56,975
36-2667627	350	22969	GE Reinsurance Corp.		180,447
13-1941868	350	34207	Westport Insurance Corp.		902
			350 Group Total		238,324
13-4924125	361	10227	American Re-Insurance Co.		221,919
			361 Group Total		221,919
74-0484030	408	60739	American National Insurance Co.		6,641
			408 Group Total		6,641
16-0366830	501	22314	RSUI Ind Co.		17,536
			501 Group Total		17,536
13-5009848	604	21032	Gerling Global Reinsurance Corp. of America		12,967
13-6107326	604	11266	Global Reinsurance Corp. - U.S. Branch		1
			604 Group Total		12,968
23-1740414	626	22705	Ace American Reinsurance Co.		156
95-2371728	626	22667	Ace American Insurance Co.		3,683
06-0237820	626	20699	Ace Property & Casualty Insurance Co.		5,240
23-0723970	626	22713	Insurance Co. of North America		5,931
13-5481330	626	21121	Westchester Fire Insurance Co.		65
			626 Group Total		15,075
13-3029255	749	39322	General Security National Insurance Co.		4,967
75-1444207	749	30058	SCOR Reinsurance Co.		35,360
			749 Group Total		40,327
23-1642962	767	12262	Pennsylvania Manufacturers Assn Ins Co.		257
23-2153760	767	39675	PMA Capital Ins Co.		5,130
			767 Group Total		5,387
22-2005057	1120	26921	Everest Reinsurance Co.		12,449
			1120 Group Total		12,449
04-1027270	1129	20613	American Employers Insurance Co.		320
13-2997499	1129	38776	Folksamerica Reinsurance Co.		12,719
			1129 Group Total		13,039
FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER		AGGREGATE RECOVERABLE (000 omitted)
13-1290712	1285	20583	X.L. Reinsurance America Inc.		$ 10,332
			1285 Group Total		10,332
13-5339725	1314	18341	Insurance Corp. of NY		454

NOTES TO FINANCIAL STATEMENTS

06-1117063	1314	34894	Trenwick America Reinsurance Corp.		68,368
			1314 Group Total		68,822
51-0335732	1325	44776	Alea North American Specialty Insurance Co.		1,792
06-1022232	1325	24899	Alea North America Insurance Co.		12,420
			1325 Group Total		14,212
06-1325038	3018	39136	Converium Reinsurance North America Inc.		161,751
			3018 Group Total		161,751
13-3031176	3483	38636	Partner Reinsurance Co. of the U.S.		5,919
13-3531373	3483	10006	PartnerRe Insurance Co. of New York		257
			3483 Group Total		6,176
36-2999370	3548	36463	Discover Prop & Cas Ins Co.		130
42-1091525	3548	35386	Fidelity & Guaranty Ins Co.		(15)
43-6028696	3548	22217	Gulf Ins Co.		4,207
41-6009967	3548	24015	Northland Ins Co.		1,790
41-0406690	3548	24767	St Paul Fire & Marine Ins Co.		17,668
06-0566050	3548	25658	Travelers Ind Co.		1,237
52-0515280	3548	25887	US Fidelity & Guaranty Co.		1,761
			3548 Group Total		26,778
AA-9995013			Associated Aviation Underwriters		115,347
03-0331391		27955	Commercial Risk Re-Insurance Co.		9,484
AA-9995022			Excess and Cas Reins Assn.		10,106
AA-1340125			Hannover Ruckversicherungs AG		7,072
AA-1122000			Lloyd's of London		19,276
AA-1128020			Lloyd's Syndicate Number 2020		6,041
AA-3190450			Patriot Insurance Co. Ltd.		24,970
AA-9991444			Texas Workers Compensation		26,173
13-2918573		42439	TOA-Reinsurance Co. of America		5,218
41-1357750		10181	Workers Compensation Reinsurance Assn.		9,092
Total Aggregate Unsecured Reinsurance Recoverables in excess of 3% of the Company's Surplus					$ 1,846,109

NOTES TO FINANCIAL STATEMENTS

B. Reinsurance Recoverables in Dispute

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

Name of Reinsurer	Total Amount in Dispute (including IBNR)	Notification	Arbitration	Litigation
Patriot Insurance Co. Ltd.	$ 30,371,053	0	0	30,371,053
Front Range Insurance Co.	9,740,877	0	0	9,740,877
X.L. Reinsurance America Inc.	6,189,632	6,189,632	0	0
American Re-insurance Co.	5,309,334	5,309,334	0	0
Clearwater Ins Co. (FKA Odyssey Re)	5,250,915	0	5,250,915	0
Swiss Reinsurance Life & Health America Inc	5,035,449	5,035,449	0	0
Q.B.E Int'l Insurance Ltd.	4,519,617	0	4,519,617	0
Canadian Reins Co. (FKA Swiss Re Canada)	3,550,945	3,550,945	0	0
Hannover Ruckversicherungs AG	3,477,031	3,477,031	0	0
Lloyd's Syndicate Number 2020	3,100,068	246	3,099,822	0
Arch Reinsurance Co.	2,660,891	2,660,891	0	0
Ace American Insurance/Cigna Insurance Co.	2,552,865	2,552,865	0	0
Employers Insurance of Wausau A Mutual Co.	2,193,846	453,003	1,740,842	0
Employers Reinsurance Corp.	2,070,248	2,070,248	0	0
Royal & Sun Alliance PLC	1,920,822	0	1,920,822	0
General Reinsurance Corp.	1,867,299	1,867,299	0	0
Transatlantic Reinsurance Co.	1,813,593	25,432	1,788,161	0
Folksamerica Reinsurance Co.	1,470,727	1,470,727	0	0
Argonaut Insurance Co.	1,419,095	1,419,095	0	0
Insurance Co. of North America	1,283,687	1,283,687	0	0
Lloyd's Syndicate Number 1212	1,247,441	0	1,247,441	0
Excess and Casualty Reinsurance Assn (ECRA)	1,054,732	1,054,732	0	0
National Casualty Co.	1,016,370	216,309	800,061	0
Lloyd's Syndicate Number 1241	945,713	0	945,713	0
TOA-Reinsurance Co. of America	924,051	0	924,051	0
Liberty Mutual Insurance Co. (Mass) Ltd.	891,426	0	891,426	0
Scor Reinsurance Co.	832,549	832,549	0	0
Lloyd's Syndicate Number 183	750,000	0	750,000	0
Lloyd's Syndicate Number 250	742,322	0	742,322	0
Swiss Reinsurance America Corp.	705,737	705,737	0	0
Continental Casualty Co.	574,106	574,106	0	0
Lloyd's Syndicate Number 510	546,609	0	546,609	0
Endurance Specialty Insurance Ltd.	500,428	500,428	0	0
Mutual Reinsurance Bureau	459,399	459,399	0	0
Excess Insurance Co. Ltd.	311,278	311,278	0	0
Odyssey Reinsurance Corp.	308,183	308,183	0	0
Ace American Reinsurance Co. (FKA Cigna Reins Co.)	292,083	292,083	0	0
American States Insurance Co.	255,545	255,545	0	0
Factory Mutual Insurance Co.	251,696	251,696	0	0
Allstate Insurance Co.	233,799	0	233,799	0
Partner Reinsurance New York	207,341	207,341	0	0
GE Reinsurance Corp.	192,203	192,203	0	0
Seguros Monterrey Aetna, S.A.	190,952	190,952	0	0
Partner Reinsurance Co. of the U.S.	182,574	182,574	0	0
Lloyd's Syndicate Number 138	149,103	0	149,103	0
Lloyd's Syndicate Number 727	149,103	0	149,103	0
Great American Insurance Co.	96,774	96,774	0	0
Lloyd's Syndicate Number 2791	74,544	0	74,544	0
Underwriters Reinsurance Co.	63,925	63,925	0	0
Arkwright Mutual Insurance Co.	62,774	62,774	0	0
Travelers Indemnity Co.	55,389	55,389	0	0
Nationwide Mutual Insurance Co.	26,939	26,939	0	0

NOTES TO FINANCIAL STATEMENTS

Name of Reinsurer	Total Amount in Dispute (including IBNR)	Notification	Arbitration	Litigation
Odyssey America Reinsurance Co.	$ 15,202	15,202	0	0
American Employers Insurance Co.	4,711	4,711	0	0
Gothaer Versicherungsbank Vag	440	440	0	0
St. Paul Fire & Marine Insurance Co.	402	0	402	0
				0
Total	$ 110,113,837	44,227,153	25,774,753	40,111,930

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, 2005, 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	$ 19,368,578	$(1,297,379)	$ 0	$ 0	$ 19,368,578	$(1,297,379)
(ii) All other	8,980,189	11,795,755	15,279,743	1,389,412	(6,299,554)	10,406,343
(iii) Total	$ 28,348,767	$10,498,376	$15,279,743	$ 1,389,412	$ 13,069,024	$ 9,108,964
(iv) Direct Unearned Premium Reserve: $5,976,927						

(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:

None.

D. Uncollectible Reinsurance

During 2005, the Company wrote off $8,346,000 of reinsurance recoverable balances with the following reinsurers:

GE Reinsurance Corp.	$2,882,000
Swiss Reinsurance America Corp.	2,853,000
Transatlantic Reinsurance Co.	2,545,000
All Other in the Aggregate	66,000

NOTES TO FINANCIAL STATEMENTS

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:

Reinsurer	FEIN Code	Amount	Reflected As
Affiliated Chemical Group Ltd.	AA-3191085	$ (35,040)	Losses Incurred
Alea Bermuda Ltd.	AA-3190800	58,559,176	Losses Incurred
GE Reinsurance Co.	36-2667627	712,837	Losses Incurred
GE Reinsurance Co.	36-2667627	7,639	Miscellaneous Income
Seven Continents Insurance Co. Ltd. (The)	AA-3190196	(727,000)	Losses Incurred
Trenwick America Reinsurance Corp.	06-1117063	10,238,380	Other
Total		$68,755,992	

Intercompany commutations are discussed in Note 10.

F. Retroactive Reinsurance

None. (See Note 1.A.)

NOTES TO FINANCIAL STATEMENTS

G. Reinsurance Accounted for as a Deposit

The Company entered into various reinsurance agreements in previous years which were determined to be of a deposit type nature. As of December 31, 2005, the Company had a total remaining deposit balance of $20,054,000 after taking into account interest income deposits and cash recoveries, as follows:

(000's Omitted)	Contract #1	Contract #2	Contract #3	Total
Effective Date	11/1/2000	11/1/1999	7/1/2002	
Effective Yield	7.54%	14.11%	-14.02%	
2000:				
Initial payment	$ 22,007	0	0	22,007
Cash deposits	0	0	0	0
Interest income	124	0	0	124
Cash recoveries	(29)	0	0	(29)
Deposit balance	$ 22,102	0	0	22,102
2001:				
Initial payment	$ 0	0	0	0
Cash deposits	20,976	3,887	0	24,863
Interest income	618	240	0	858
Cash recoveries	(1,538)	(1,454)	0	(2,992)
Deposit balance	$ 42,158	2,673	0	44,831
2002:				
Initial payment	$ 0	0	2,823	2,823
Cash deposits	22,411	0	0	22,411
Interest income	1,047	290	(1,698)	(361)
Cash recoveries	(6,235)	(967)	(10)	(7,212)
Deposit balance	$ 59,381	1,996	1,115	62,492
2003:				
Initial payment	$ 0	0	0	0
Cash deposits	765	0	(71)	694
Interest income	7,342	114	0	7,456
Cash recoveries	(13,870)	(538)	(361)	(14,769)
Deposit balance	$ 53,618	1,572	683	55,873
2004:				
Initial payment	$ 0	0	0	0
Cash deposits	186	0	(1)	185
Interest income	1,974	0	0	1,974
Cash recoveries	(14,339)	0	(366)	(14,705)
Deposit balance	$ 41,439	1,572	316	43,327
2005:				
Initial payment	$ 0	0	0	0
Cash deposits	0	0	0	0
Interest income	4,322	415	586	5,323
Cash recoveries	(26,838)	(1,532)	(226)	(28,596)
Deposit balance	$ 18,923	455	676	20,054

24. RETROSPECTIVELY RATED CONTRACTS & CONTRACTS SUBJECT TO REDETERMINATION

The amount shown under the statutory caption "accrued retrospective premiums" represents additional premiums due the Company for loss sensitive programs and accrued dividend recalls, net of a valuation reserve, which totaled $58,656,689 and $107,837,509 at December 31, 2005 and 2004, respectively.

NOTES TO FINANCIAL STATEMENTS

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 collateral and totaled $1,632,790 and $4,809,459 at December 31, 2005 and 2004, respectively.

25. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

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

		2005		2004
		(in thousands)		
Balance as of January 1, net of reinsurance recoverables of $3,065,093 in 2005 and $3,750,385 in 2004	$	2,759,032		3,823,969
Incurred related to:				
Current accident year		37,400		99,461
Prior accident years		112,606		116,159
Total incurred		150,006		215,620
Paid related to:				
Current accident year		22,383		(48,617)
Prior accident years		(921,859)		(1,231,940)
Total paid		(899,476)		(1,280,557)
Balance as of December 31, net of reinsurance recoverables of $2,081,041 in 2005 and $3,065,093 in 2004	$	2,009,562		2,759,032

The incurred loss and LAE related to prior accident years increased on a net basis by $112.6 million in 2005 and $116.2 million in 2004. The prior year development in 2005 is comprised of $70.0 million of favorable development related to commutations, novations, and buyback activity. During 2005, the Company recorded approximately $182.8 million of adverse loss and LAE development, including an expected amortization of discount of $102.0 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 members of the Kemper Insurance Companies has historically been ceded to the Company through quota share reinsurance agreements with some Company subsidiaries retaining a portion of the business written and through a quota share pooling agreement by and among the Company, AMICO, and AMM. Prior to 2003, of the insurance business directly written by the Company or ceded to the Company, including all business written by AMICO and AMM, the Company ceded (net of third-party, unaffiliated, reinsurance and excluding Canadian business) 15% to AMICO and 8% to AMM. (Third-party reinsurance has generally attached after cessions by affiliates to the Company, although some specific risks have been subject to facultative or other reinsurance before cession to the Company.) Effective January 1, 2003, the pooling agreement was amended to eliminate the 15% cession to AMICO, and effective December 31, 2003, the pooling agreement was amended to eliminate the 8% cession to AMM. The effect of both amendments was for the Company to retain all previously ceded risks, and the amendments were accompanied by transfers of assets by each of AMICO and AMM in order to satisfy the liabilities transferred to the Company by the pooling agreement amendments. As a result, at December 31, 2005 and 2004, the net reserves at each of AMICO and AMM are zero. Loss and loss expense reserves 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, 2005 value of loss reserves eliminated by the purchase of these annuities was $138,457,019. 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	Amount
SAFECO Life Insurance Co.	Seattle, WA	$34,238,269
United Pacific Life Insurance Co.	Seattle, WA	23,461,990
First Colony Life Insurance Co.	Lynchburg, VA	23,101,713
Federal Home Life Insurance Co.	Richmond, VA	17,007,747
Metropolitan Life Insurance Co.	New York, NY	11,762,105

NOTES TO FINANCIAL STATEMENTS

Prudential Life Insurance Co.	Newark, NJ	4,058,930
Transamerica Occidental Life Insurance Co.	Cedar Rapids, IA	3,456,713
Presidential Life Insurance Co.	Nyack, NY	3,029,571
Charter Security Life Insurance Company	Hartford, CT	2,056,348
Manufacturers Life of Canada	Toronto, ON	1,990,893

28. HEALTH CARE RECEIVABLES

None.

29. PARTICIPATING POLICIES

None.

30. PREMIUM DEFICIENCY RESERVES

As of December 31, 2005, the Company had liabilities of $5,597,054 related to premium deficiency reserves. The Company used an offset of $2,995,100 for anticipated investment income based on an interest rate of 4.2% when calculating its premium deficiency reserves.

31. HIGH DEDUCTIBLES

As of December 31, 2005, the amount of reserve credits recorded for high deductibles on unpaid workers compensation claims was $876,132,914, and for non-workers compensation claims it was $80,109,394. The workers compensation amount reflects both Broadspire handled claims and also claims handled by other third-party administrators. The non-workers compensation amount reflects only claims handled by Broadspire. Information is not available for the non-workers compensation claims not handled by Broadspire. The amount billed and recoverable on paid claims was $43,863,772.

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, 2005 is $625,817,254, of which $157,534,607 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 1999 United States Decennial Life Tables for Female and Male Population at 3.5%, except for cases from New Jersey and New York. New Jersey cases use the 1999 United States Decennial Life Tables for Female and Male Population at 5.0%. New York cases use New York Special Bulletin 222 from the New York State Workers' Compensation Board at 3.0% or 6.0% depending on the accident date. Any supplemental discount associated with the Company's higher interest rate assumption is treated as non-tabular discount.

(000's omitted)	
Tabular Discount	
Included in Schedule P, Part 1	
Line of Business	*Case and IBNR
Workers' Compensation	$ 157,535
Non-Tabular Discount	
Line of Business	
Homeowners/Farmowners	414
Private Passenger Auto Liability/Medical	3,820
Commercial Auto/Truck Liability/Medical	15,693
Workers' Compensation	286,858
Commercial Multi Peril	31,808
Medical Malpractice - occurrence	8
Medical Malpractice - claims-made	537
Specialty Liability	939
Other Liability - occurrence	94,030
Other Liability - claims-made	9,468
Special Property	285
Auto Physical Damage	(8)
Fidelity/Surety	3,859
Other (including Credit, A&H)	89
Reinsurance Nonproportional Assumed Liability	22,548
Products Liability - occurrence	(2,071)
Products Liability - claims-made	4

NOTES TO FINANCIAL STATEMENTS

Total	468,283
Grand Total	$ 625,817

*Includes loss and loss adjustment expense.

33. ASBESTOS/ENVIRONMENTAL RESERVES

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

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

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

Direct (000 omitted)	2001	2002	2003	2004	2005
Beginning reserves	$54,531	$323,711	$331,369	$455,273	$316,063
Codification adjustment at 1/1/01	200,735	0	0	0	0
Incurred losses and LAE	103,364	24,648	152,688	(91,672)	(3,481)
Calendar year payments for					
Losses and LAE	(34,919)	(16,990)	(28,784)	(47,538)	(53,894)
Ending asbestos related loss reserves	$323,711	$331,369	$455,273	$ 316,063	$258,688

Assumed Reinsurance (000 omitted)	2001	2002	2003	2004	2005
Beginning reserves	$ 58,816	$440,031	$435,865	$344,314	$270,969
Incurred losses and LAE	412,534	29,960	(39,425)	(20,238)	5,965
Calendar year payments for					
Losses and LAE	(31,319)	(34,126)	(52,126)	(53,107)	(45,589)
Ending asbestos related loss reserves	$440,031	$435,865	$344,314	$270,969	$231,345

Net of Reinsurance (000 omitted)	2001	2002	2003	2004	2005
Beginning reserves	$ 77,841	$ 382,891	$390,094	$ 443,809	$274,800
Codification adjustment at 1/1/01	154,566	0	0	0	0
Incurred losses and LAE	199,092	34,448	29,232	(86,693)	4,838
Calendar year payments for					
losses and LAE	(48,608)	(27,245)	24,483	(82,316)	(64,140)
Ending asbestos related loss reserves	$382,891	$ 390,094	$443,809	$ 274,800	$215,498

The total asbestos related loss reserves at December 31, 2005 include IBNR reserves in the amount of $21,470,000 direct, $71,763,000 assumed, and $47,896,000 net of reinsurance. These IBNR reserves and the comparable amounts for prior years cover both losses and defense and cost containment expenses.

The total asbestos related loss reserves at December 31, 2005 also include loss adjustment expenses in the amount of $40,829,000 direct, $135,495,000 assumed, and $148,855,000 net of reinsurance.

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, 2005 is $44,498,000 direct, $0 assumed, and $44,498,000 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:

Direct (000 omitted)	2001	2002	2003	2004	2005
Beginning reserves	$ 31,155	$ 55,110	$ 19,353	$ 17,499	$ 14,958
Codification adjustment at 1/1/01	114,385	0	0	0	0
Incurred losses and LAE	(73,733)	(32,401)	780	24,692	9,759
Calendar year payments for					
Losses and LAE	(16,697)	(3,356)	(2,634)	(27,233)	(7,694)
Ending environmental related loss reserves	$ 55,110	$ 19,353	$ 17,499	$ 14,958	$ 17,023

Assumed Reinsurance (000 omitted)	2001	2002	2003	2004	2005
Beginning reserves	$ 60,933	$ 50,378	$ 135,966	$ 129,512	$ 88,934
Incurred losses and LAE	41,727	86,952	(3,286)	(20,713)	683
Calendar year payments for					
losses and LAE	(52,282)	(1,364)	(3,168)	(19,865)	(12,192)
Ending environmental related loss reserves	$ 50,378	$135,966	$ 129,512	$ 88,934	$ 77,425

Net of Reinsurance (000 omitted)	2001	2002	2003	2004	2005
Beginning reserves	$ 59,704	$ 69,188	$ 104,946	$125,862	$ 88,310
Codification adjustment at 1/1/01	88,076	0	0	0	0
Incurred losses and LAE	(38,247)	29,244	(3,068)	(6,290)	(3,202)
Calendar year payments for					
losses and LAE	(40,345)	6,514	23,984	(31,262)	(10,736)
Ending environmental related loss reserves	$ 69,188	$ 104,946	$ 125,862	$ 88,310	$ 74,372

The total environmental related loss reserves at December 31, 2005 include IBNR reserves in the amount of $2,019,000 direct, $9,628,000 assumed, and $5,716,000 net of reinsurance. These IBNR reserves and the comparable amounts for prior years cover both losses and defense and cost containment expenses.

The total environmental related loss reserves at December 31, 2005 also include loss adjustment expenses in the amount of $7,766,000 direct, $33,880,000 assumed, and $36,694,000 net of reinsurance.

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, 2005 is $5,681,000 direct, $0 assumed, and $5,681,000 net of reinsurance.

34. SUBSCRIBER SAVINGS ACCOUNT
None.

35. MULTIPLE PERIL CROP INSURANCE
None.

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	789,276,258	39.249	789,276,258	39.067
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	0	0.000	0	0.000
1.22 Issued by U.S. government sponsored agencies	71,539,273	3.558	71,539,273	3.541
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)	76,099	0.004	76,099	0.004
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	20,151,660	1.002	20,151,660	0.998
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	0	0.000	0	0.000
1.43 Revenue and assessment obligations	51,527,415	2.562	51,527,415	2.550
1.44 Industrial development and similar obligations	0	0.000	0	0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	1,879,804	0.093	1,879,804	0.093
1.512 Issued or guaranteed by FNMA and FHLMC	6,223,984	0.310	6,223,984	0.308
1.513 All other	19,290,211	0.959	19,290,211	0.955
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	29,378,938	1.461	29,378,938	1.454
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	0.000	0	0.000
1.523 All other	0	0.000	0	0.000
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	556,144,279	27.656	556,144,279	27.528
2.2 Unaffiliated foreign securities	7,313,951	0.364	7,313,951	0.362
2.3 Affiliated securities	0	0.000	0	0.000
3. Equity interests:				
3.1 Investments in mutual funds	208,130	0.010	208,130	0.010
3.2 Preferred stocks:				
3.21 Affiliated	0	0.000	0	0.000
3.22 Unaffiliated	0	0.000	0	0.000
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated	0	0.000	0	0.000
3.32 Unaffiliated	90,027	0.005	90,027	0.004
3.4 Other equity securities:				
3.41 Affiliated	82,088,104	4.082	91,424,689	4.525
3.42 Unaffiliated	2,138,428	0.106	2,138,428	0.106
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated	27,437,526	1.364	27,437,526	1.358
3.52 Unaffiliated	408,981	0.020	408,981	0.020
4. Mortgage loans:				
4.1 Construction and land development	0	0.000	0	0.000
4.2 Agricultural	0	0.000	0	0.000
4.3 Single family residential properties	804,176	0.040	804,176	0.040
4.4 Multifamily residential properties	0	0.000	0	0.000
4.5 Commercial loans	0	0.000	0	0.000
4.6 Mezzanine real estate loans	0	0.000	0	0.000
5. Real estate investments:				
5.1 Property occupied by the company	0	0.000	0	0.000
5.2 Property held for the production of income (including $ .... of property acquired in satisfaction of debt)	0	0.000	0	0.000
5.3 Property held for sale (including $ .... property acquired in satisfaction of debt)	4,241,182	0.211	4,241,182	0.210
6. Contract loans	0	0.000	0	0.000
7. Receivables for securities	32,476,418	1.615	32,476,418	1.608
8. Cash, cash equivalents and short-term investments	308,270,902	15.329	308,270,902	15.259
9. Other invested assets	0	0.000	0	0.000
10. Total invested assets	2,010,965,746	100.000	2,020,302,331	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.

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 an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
Frederick O. Kist, FCAS, MAAA, Senior Vice President and Chief Actuary, Lumbermens Mutual Casualty Company, Long Grove, Illinois 60049-0001

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

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

11.12 Number of parcels involved: 2

11.13 Total book/adjusted carrying value: $ 7,720,511

11.2 If yes, provide explanation

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

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

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

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

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

BOARD OF DIRECTORS

13. 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 [ ]

14. 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 [ ]

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

FINANCIAL

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

16.11 To directors or other officers $ 0

16.12 To stockholders not officers $ 0

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

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

16.21 To directors or other officers $ 0

16.22 To stockholders not officers $ 0

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

17.1 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]

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

17.21 Rented from others $

17.22 Borrowed from others $

17.23 Leased from others $

17.24 Other $

18.1 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]

18.2 If answer is yes,

18.21 Amount paid as losses or risk adjustment $

18.22 Amount paid as expenses $

18.23 Other amounts paid $

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

19.2 If yes, indicated any amounts receivable from parent included in the Page 2 amount: $

GENERAL INTERROGATORIES

INVESTMENT

20.1 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 [ ]

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

21.1 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 17.1) .... Yes [ ] No [X]

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

21.21	Loaned to others	$
21.22	Subject to repurchase agreements	$
21.23	Subject to reverse repurchase agreements	$
21.24	Subject to dollar repurchase agreements	$
21.25	Subject to reverse dollar repurchase agreements	$
21.26	Pledged as collateral	$
21.27	Placed under option agreements	$
21.28	Letter stock or other securities restricted as to sale	$
21.29	Other	$

21.3 For category (21.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

22.2 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.

23.1 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]

23.2 If yes, state the amount thereof at December 31 of the current year. .... $ 0

GENERAL INTERROGATORIES

24. 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 [ ]

24.01 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

24.02 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)

24.03 Have there been any changes, including name changes, in the custodian(s) identified in 24.01 during the current year? Yes [ ] No [X]

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

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

24.05 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
109875	Asset Allocation Management Company, LLC	30 North LaSalle, Suite # 3500, Chicago, IL 60602

25.1 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]

25.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
25.2999 TOTAL		0

25.3 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

26. 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 (+)
26.1 Bonds	1,886,601,975	1,834,766,000	(51,835,975)
26.2 Preferred stocks	0	0	0
26.3 Totals	1,886,601,975	1,834,766,000	(51,835,975)

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

See Footnote 5.

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

27.2 If no, list the exceptions:

OTHER

28.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? $ 232,702

28.2 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
Texas Windstorm Insurance Association	58,176

29.1 Amount of payments for legal expenses, if any? $ 13,087,685

29.2 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	5,100,110

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

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

1 Name	2 Amount Paid

GENERAL INTERROGATORIES

(continued)

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

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

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

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

1.31 Reason for excluding

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

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

1.6 Individual policies:

Most current three years:

1.61 Total premium earned $ 0

1.62 Total incurred claims $ 0

1.63 Number of covered lives $ 0

All years prior to most current three years:

1.64 Total premium earned $ 0

1.65 Total incurred claims $ 0

1.66 Number of covered lives $ 0

1.7 Group policies:

Most current three years:

1.71 Total premium earned $ 0

1.72 Total incurred claims $ 0

1.73 Number of covered lives $ 0

All years prior to most current three years:

1.74 Total premium earned $ 0

1.75 Total incurred claims $ 0

1.76 Number of covered lives $ 0

2. Health Test:

		1 Current Year	2 Prior Year
2.1	Premium Numerator	$ 0	$ 2,507
2.2	Premium Denominator	$ 21,300,321	$ 59,809,702
2.3	Premium Ratio (2.1/2.2)	0.000	0.000
2.4	Reserve Numerator	$ 28,285,293	$ 31,787,732
2.5	Reserve Denominator	$ 2,065,169,556	$ 2,882,933,307
2.6	Reserve Ratio (2.4/2.5)	0.014	0.011

3.1 Does the reporting entity issue both participating and non-participating policies? Yes [ ] No [X]

3.2 If yes, state the amount of calendar year premiums written on:

3.21 Participating policies $

3.22 Non-participating policies $

4. For Mutual Reporting Entities and Reciprocal Exchanges Only:

4.1 Does the reporting entity issue assessable policies? Yes [ ] No [X]

4.2 Does the reporting entity issue non-assessable policies? Yes [X] No [ ]

4.3 If assessable policies are issued, what is the extent of the contingent liability of the policyholders? %

4.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums? $

5. For Reciprocal Exchanges Only:

5.1 Does the Exchange appoint local agents? Yes [ ] No [ ]

5.2 If yes, is the commission paid:

5.21 Out of Attorney's-in-fact compensation Yes [ ] No [ ] NA [X]

5.22 As a direct expense of the Exchange Yes [ ] No [ ] NA [X]

5.3 What expenses of the Exchange are not paid out of the compensation of the Attorney-in-fact?

5.4 Has any Attorney-in-fact compensation, contingent on fulfillment of certain conditions, been deferred? Yes [ ] No [ ]

5.5 If yes, give full information

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

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

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

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

The Company's property exposures continued to rapidly decline throughout 2005 as a result of the run-off of the Company's exposures beginning in 2003. In 2004 it was no longer necessary to estimate the nature and extent of the Company's probable maximum insurance loss or exposure of concentrations.

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

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

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

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

Due to the Company being well into run-off in 2005 there was no longer the necessity for per risk excess of loss reinsurance on either a facultative or risks attaching basis to protect against the risk of loss arising from single large loss occurrences.

7.1 Has this reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss 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: 3

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

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

8.2 If yes, give full information

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

(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

(c) Aggregate stop loss reinsurance coverage;

(d) An unconditional or unilateral right by either party to commute the reinsurance contract, except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes [X] No [ ]

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

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty–five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.

Do not include cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member. Yes [ ] No [X]

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

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

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

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

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

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

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

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

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

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

11.2 If yes, give full information

The Company has guaranteed the obligations under policies issued on and after January 1, 2002 by its Belgium subsidiary, Kemper S.A. (Societe Anonyme), and obligations under policies issued by its Australian subsidiary, Kemper Insurance Company Limited.

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 13.3 of the assets schedule, Page 2, state the amount of corresponding liabilities recorded for:

12.11 Unpaid losses $

12.12 Unpaid underwriting expenses (including loss adjustment expenses) $

12.2 Of the amount on Line 13.3, Page 2, state the amount which is secured by letters of credit, collateral and other funds. $ 57,285,735

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

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

12.41 From %

12.42 To %

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

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

12.61 Letters of Credit $ 1,839,327,336

12.62 Collateral and other funds $ 210,337,760

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

13.2 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]

13.3 If yes, what amount? $

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

14.2 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]

14.3 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

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

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

15.3 If the answer to 15.1 is yes, are the methods described in item 15.2 entirely contained in the respective multiple cedant reinsurance contracts? Yes [ ] No [X]

15.4 If the answer to 15.3 is no, are all the methods described in 15.2 entirely contained in writer agreements? Yes [X] No [ ]

15.5 If answer to 15.4 is no, please explain:
N/A

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

16.2 If yes, give full information

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	$ 27,986	$ 19,834	$ (1,445)	$ 176,005	$ 22,368
17.12	Products	$ 1,729,980	$ 6,968,738	$ 1,205	$ 572,778	$ 1,261,885
17.13	Automobile	$ (218,651)	$ (896,831)	$ 0	$ 0	$
17.14	Other*	$	$	$	$	$

* Disclose type of coverage:

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

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

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

18.11	Gross amount of unauthorized reinsurance in Schedule F – Part 3 excluded from Schedule F – Part 5	$
18.12	Unfunded portion of Interrogatory 18.11	$
18.13	Paid losses and loss adjustment expenses portion of Interrogatory 18.11	$
18.14	Case reverses portion of Interrogatory 18.11	$
18.15	Incurred but not reported portion of Interrogatory 18.11	$
18.16	Unearned premium portion of Interrogatory 18.11	$
18.17	Contingent commissions portion of Interrogatory 18.11	$

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

18.18	Gross amount of unauthorized reinsurance in Schedule F – Part 3 excluded from Schedule F – Part 5	$
18.19	Unfunded portion of Interrogatory 18.18	$
18.20	Paid losses and loss adjustment expenses portion of Interrogatory 18.18	$
18.21	Case reverses portion of Interrogatory 18.18	$
18.22	Incurred but not reported portion of Interrogatory 18.18	$
18.23	Unearned premium portion of Interrogatory 18.18	$
18.24	Contingent commissions portion of Interrogatory 18.18	$

FIVE-YEAR HISTORICAL DATA

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

	1 2005	2 2004	3 2003	4 2002	5 2001
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)	22,472,322	27,799,424	629,763,302	3,129,414,870	3,054,037,377
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	1,299,270	873,033	214,257,216	510,450,126	850,043,494
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	527,821	(1,339,063)	231,115,268	668,256,584	640,146,772
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	6,500,480	19,548,881	(17,550,167)	243,336,275	214,488,738
5. Non-proportional reinsurance lines (Lines 30, 31 & 32)	31,692	(1,267,149)	9,763,406	38,907,249	33,314,009
6. Total (Line 34)	30,831,585	45,615,126	1,067,349,025	4,590,365,104	4,792,030,390
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)	8,808,723	(14,821,429)	268,603,498	415,341,865	1,167,384,721
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	707,042	(1,679,743)	48,122,517	138,217,595	282,553,770
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,131,312	1,825,143	33,750,795	124,292,413	357,657,074
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	(13,171,767)	7,973,776	(112,873,230)	19,140,857	71,416,424
11. Non-proportional reinsurance lines (Lines 30, 31 & 32)	(237,556)	(1,975,020)	2,962,535	635,532	1,929,596
12. Total (Line 34)	(2,762,246)	(8,677,273)	240,566,115	697,628,262	1,880,941,585
Statement of Income (Page 4)					
13. Net underwriting gain (Loss) (Line 8)	(225,300,503)	(227,357,285)	101,824,464	(238,226,578)	(219,529,138)
14. Net investment gain (Loss) (Line 11)	68,978,876	108,977,098	(389,652,336)	(114,325,621)	125,928,176
15. Total other income (Line 15)	55,064,209	14,797,895	(239,745,941)	152,144,259	167,276,952
16. Dividends to policyholders (Line 17)	7,127,581	(49,931,358)	16,972,607	55,400,810	67,548,338
17. Federal and foreign income taxes incurred (Line 19)	(24,410,660)	12,317,644	(27,168,635)	(49,888,771)	(65,343,362)
18. Net income (Line 20)	(83,974,339)	(65,968,578)	(517,377,785)	(205,919,979)	71,471,014
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	2,735,065,059	3,776,440,507	5,229,941,637	6,071,135,836	7,091,939,335
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	74,550,449	109,557,218	164,086,680	356,034,235	777,405,905
20.2 Deferred and not yet due (Line 13.2)	47,995,805	90,367,442	145,990,451	678,274,662	540,729,268
20.3 Accrued retrospective premiums (Line 13.3)	58,656,689	107,837,509	157,532,537	123,216,344	103,691,449
21. Total liabilities excluding protected cell business (Page 3, Line 24)	2,566,751,908	3,605,005,627	5,027,515,672	5,374,289,793	5,825,363,930
22. Losses (Page 3, Lines 1 and 2)	1,452,943,909	2,099,231,683	3,164,243,055	2,744,057,644	2,498,853,925
23. Loss adjustment expenses (Page 3, Line 3)	593,179,696	742,764,295	729,758,862	771,410,165	728,701,033
24. Unearned premiums (Page 3, Line 9)	19,045,951	43,108,518	111,595,492	269,409,686	969,717,025
25. Capital paid up (Page 3, Lines 28 & 29)	0	0	0	0	0
26. Surplus as regards policyholders (Page 3, Line 35)	168,313,151	171,434,880	202,425,965	696,846,043	1,266,575,405
Risk-Based Capital Analysis					
27. Total adjusted capital	168,313,151	171,434,880	182,973,965	507,183,043	1,058,470,405
28. Authorized control level risk-based capital	264,983,529	390,670,561	545,728,319	610,695,127	481,424,171
Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3)(Item divided by Page 2, Line 10, Col. 3) x 100.0					
29. Bonds (Line 1)	76.8	58.2	41.9	34.0	69.0
30. Stocks (Lines 2.1 & 2.2)	4.6	4.0	7.1	31.6	17.6
31. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.0	0.1	0.4	1.3	1.3
32. Real estate (Lines 4.1, 4.2 & 4.3)	0.2	1.3	1.0	2.6	2.3
33. Cash, cash equivalents and short-term investments (Line 5)	15.3	34.5	46.9	26.6	5.0
34. Contract loans (Line 6)	0.0	0.0	0.0	XXX	XXX
35. Other invested assets (Line 7)	1.4	1.9	2.6	3.8	4.9
36. Receivables for securities (Line 8)	1.6	0.1	0.1	0.0	0.0
37. Aggregate write-Ins for invested assets (Line 9)	0.0	0.0	0.0	0.0	0.0
38. Cash, cash equivalents 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	0	3,116,162	(17,383)
41. Affiliated common stocks (Schedule D, Summary, Line 53, Col. 2)	91,424,689	105,837,000	260,674,361	1,280,052,573	822,326,498
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	27,437,526	0	0	0	0
45. Total of above Lines 39 to 44	118,862,215	105,837,000	260,674,361	1,283,168,735	822,309,115
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)	70.6	61.7	128.8	184.1	64.9

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2005	2 2004	3 2003	4 2002	5 2001
Capital and Surplus Accounts (Page 4)					
47. Net unrealized capital gains (Losses) (Line 24)	2,373,602	(22,252,837)	107,581,822	(178,437,296)	261,845,166
48. Dividends to stockholders (Line 35)	0	0	0	0	0
49. Change in surplus as regards policyholders for the year (Line 38)	(3,121,729)	(30,991,085)	(494,420,078)	(569,729,362)	(546,694,926)
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)	1,042,023,542	928,545,629	872,848,164	1,602,451,470	1,545,234,760
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	11,457,743	17,434,877	170,514,662	221,615,571	501,788,118
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	107,495,667	108,880,809	382,980,743	420,217,007	458,460,802
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	127,477,006	88,488,799	232,581,726	110,953,811	87,065,980
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	94,643,337	90,414,974	27,030,651	19,227,534	15,066,279
55. Total (Line 34)	1,383,097,295	1,233,765,088	1,685,955,946	2,374,465,393	2,607,615,939
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)	551,574,190	793,516,536	(429,172,796)	866,964,638	985,881,127
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	5,201,718	10,622,731	4,758,282	103,134,158	163,131,344
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	63,982,237	94,317,464	41,906,617	213,771,971	287,835,303
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	5,760,329	35,357,196	(78,530)	39,378,931	35,286,365
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	42,221,613	4,861,043	(2,558,166)	5,351,147	6,390,461
61. Total (Line 34)	668,740,087	938,674,970	(385,144,593)	1,228,600,845	1,478,524,600
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)	323.3	(232.9)	(5.4)	77.1	70.3
64. Loss expenses incurred (Line 3)	381.0	593.4	(6.4)	20.8	13.0
65. Other underwriting expenses incurred (Line 4)	451.0	125.4	84.3	18.4	28.5
66. Net underwriting gain (loss) (Line 8)	(1,057.7)	(380.1)	25.6	(16.3)	(11.5)
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)	(1,503.5)	(654.0)	242.5	16.7	19.7
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	704.2	360.5	(11.8)	97.9	83.3
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)	(1.6)	(5.1)	118.8	100.1	148.5
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)	(17,799)	(218,544)	108,673	733,358	410,264
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)	(10.4)	(108.0)	15.6	57.9	22.6
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)	(249,085)	(4,933)	1,086,807	893,054	523,624
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)	(123.0)	(0.7)	85.8	49.3	21.8

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	862,695,335	844,894,645	866,583,662	854,036,019
Governments	2. Canada	76,099	79,017	78,439	75,000
(Including all obligations guaranteed	3. Other Countries	0	0	0	0
by governments)	4. Totals	862,771,434	844,973,662	866,662,101	854,111,019
States, Territories and Possessions	5. United States	20,151,660	20,086,907	20,151,751	20,150,000
(Direct and guaranteed)	6. Canada	0	0	0	0
	7. Other Countries	0	0	0	0
	8. Totals	20,151,660	20,086,907	20,151,751	20,150,000
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	87,130,337	88,915,975	88,287,012	84,917,275
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	87,130,337	88,915,975	88,287,012	84,917,275
Public Utilities (unaffiliated)	17. United States	25,683,393	25,074,186	27,104,478	24,000,000
	18. Canada	0	0	0	0
	19. Other Countries	0	0	0	0
	20. Totals	25,683,393	25,074,186	27,104,478	24,000,000
Industrial and Miscellaneous and Credit Tenant	21. United States	552,369,987	517,647,270	556,003,493	554,616,405
Loans (unaffiliated)	22. Canada	0	0	0	0
	23. Other Countries	3,855,060	3,855,060	4,028,362	0
	24. Totals	556,225,047	521,502,330	560,031,855	554,616,405
Parent, Subsidiaries and Affiliates	25. Totals	0	0	0	0
	26. **Total Bonds**	1,551,961,871	1,500,553,059	1,562,237,197	1,537,794,699
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	0	0	0	
	36. Canada	0	0	0	
	37. Other Countries	0	0	0	
	38. Totals	0	0	0	
Parent, Subsidiaries and Affiliates	39. Totals	0	0	0	
	40. **Total Preferred Stocks**	0	0	0	
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	727,791	1,007,415	727,791	
(unaffiliated)	46. Canada	0	0	0	
	47. Other Countries	0	0	0	
	48. Totals	727,791	1,007,415	727,791	
Industrial and Miscellaneous (unaffiliated)	49. United States	1,708,794	1,708,794	1,660,993	
	50. Canada	0	0	0	
	51. Other Countries	0	0	0	
	52. Totals	1,708,794	1,708,794	1,660,993	
Parent, Subsidiaries and Affiliates	53. Totals	91,424,689	91,424,689	58,336,998	
	54. **Total Common Stocks**	93,861,274	94,140,898	60,725,782	
	55. **Total Stocks**	93,861,274	94,140,898	60,725,782	
	56. **Total Bonds and Stocks**	1,645,823,145	1,594,693,957	1,622,962,979	

SCHEDULE D - VERIFICATION BETWEEN YEARS

Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year			1,692,836,255
2. Cost of bonds and stocks acquired, Column 7, Part 3			748,969,226
3. Accrual of discount			2,356,797
4. Increase (decrease) by adjustment:			
4.1 Columns 12 - 14, Part 1	(1,180,913)		
4.2 Columns 15 - 17, Part 2, Sec. 1	0		
4.3 Column 15, Part 2, Sec. 2	(3,312,920)		
4.4 Columns 11 - 13, Part 4	(3,320,249)		(7,814,082)
5. Total gain (loss), Col. 19, Part 4			2,567,616
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4			785,106,096
7. Amortization of premium			7,721,130
8. Foreign Exchange Adjustment:			
8.1 Column 15, Part 1		0	
8.2 Column 19, Part 2, Sec. 1		0	
8.3 Column 16, Part 2, Sec. 2		0	
8.4 Column 15, Part 4		(265,441)	(265,441)
9. Book/adjusted carrying value at end of current period			1,645,823,145
10. Total valuation allowance			0
11. Subtotal (Lines 9 plus 10)			1,645,823,145
12. Total nonadmitted amounts			0
13. Statement value of bonds and stocks, current period			1,645,823,145

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

($000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								12
	1	2	3	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	Number of Claims Reported - Direct and Assumed
				4	5	6	7	8	9	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
	Direct and Assumed	Ceded	Net (Cols. 1 - 2)	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded			
1. Prior	XXX	XXX	XXX	195,149	80,503	55,815	3,096	2,748	623	3,140	169,490	XXX
2. 1996	3,087,094	298,118	2,788,976	1,648,861	121,082	151,460	17,635	113,601	1,041	70,502	1,774,163	XXX
3. 1997	3,179,134	256,693	2,922,441	1,843,480	161,478	168,608	12,554	121,129	2,757	73,426	1,956,429	XXX
4. 1998	3,283,749	455,427	2,828,322	2,402,115	516,691	218,654	43,188	157,944	5,476	76,150	2,213,358	XXX
5. 1999	3,338,595	888,663	2,449,932	2,583,545	946,919	255,422	64,961	178,403	9,134	100,984	1,996,356	XXX
6. 2000	3,723,754	1,067,553	2,656,201	2,607,752	939,008	269,324	71,469	273,456	19,839	222,012	2,120,216	XXX
7. 2001	4,776,690	2,304,460	2,472,230	2,720,642	1,182,344	267,075	56,089	309,433	55,462	136,493	2,003,255	XXX
8. 2002	4,528,662	2,631,131	1,897,531	1,395,077	567,235	163,473	41,153	220,224	95,332	53,327	1,075,054	XXX
9. 2003	2,597,722	2,164,948	432,774	581,494	410,387	38,398	9,887	63,287	15,131	13,668	247,774	XXX
10. 2004	262,845	203,034	59,811	82,525	40,342	5,632	208	20,916	2,607	1,253	65,916	XXX
11. 2005	63,843	42,544	21,299	24,656	10,988	1,514	588	8,358	569	30	22,383	XXX
12. Totals	XXX	XXX	XXX	16,085,296	4,976,977	1,595,375	320,828	1,469,498	207,971	750,985	13,644,394	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21	22	Salvage and Subrog-ation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstand-ing - Direct and Assumed
	13	14	15	16	17	18	19	20					
	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded			
1.	1,070,008	324,475	(4,037)	48,792	164,872	7,766	123,025	36,638	13,293	3,079	261	946,411	XXX
2.	74,527	13,561	(2,889)	724	4,680	575	9,454	2,612	1,543	298	268	69,545	XXX
3.	98,351	27,789	10,861	3,255	5,017	514	16,766	4,269	1,671	307	593	96,532	XXX
4.	161,067	41,306	27,585	19,674	10,214	1,052	23,935	6,388	2,938	605	1,473	156,713	XXX
5.	264,334	113,635	71,437	40,504	11,475	3,882	42,047	17,287	6,157	1,447	8,460	218,695	XXX
6.	308,450	204,065	137,435	126,133	23,785	12,139	40,341	19,951	10,410	2,606	4,516	155,526	XXX
7.	292,420	172,767	218,474	150,516	29,117	10,808	62,470	30,781	12,072	2,632	12,138	247,049	XXX
8.	325,826	178,609	241,433	171,341	32,881	12,952	77,963	32,721	16,452	3,900	8,521	295,032	XXX
9.	186,852	81,844	151,056	87,541	20,812	8,710	61,182	26,409	9,799	2,357	19,546	222,840	XXX
10.	26,591	9,665	25,371	(2,212)	2,900	1,463	10,200	4,827	1,210	216	8,172	52,313	XXX
11.	4,210	1,787	14,356	3,878	382	132	4,549	1,895	1,558	174	865	17,189	XXX
12. Totals	2,812,636	1,169,503	891,082	650,146	306,135	59,993	471,932	183,778	77,102	17,621	64,813	2,477,846	XXX

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34	Net Balance Sheet Reserves After Discount	
	26	27	28	29	30	31	32	33	Inter-Company Pooling Participation Percentage	35	36
	Direct and Assumed	Ceded	Net	Direct and Assumed	Ceded	Net	Loss	Loss Expense		Losses Unpaid	Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	242,645	116	XXX	450,059	253,591
2.	2,001,237	157,528	1,843,708	64.8	52.8	66.1	15,117	2		42,236	12,190
3.	2,265,884	212,923	2,052,961	71.3	82.9	70.2	21,474	3		56,694	18,361
4.	3,004,452	634,380	2,370,071	91.5	139.3	83.8	31,746	13		95,926	29,028
5.	3,412,820	1,197,769	2,215,051	102.2	134.8	90.4	38,112	59		143,520	37,004
6.	3,670,953	1,395,211	2,275,742	98.6	130.7	85.7	21,705	126		93,982	39,713
7.	3,911,703	1,661,399	2,250,304	81.9	72.1	91.0	25,856	93		161,755	59,345
8.	2,473,329	1,103,243	1,370,086	54.6	41.9	72.2	36,524	126		180,785	77,597
9.	1,112,880	642,265	470,614	42.8	29.7	108.7	27,658	56		140,865	54,261
10.	175,345	57,116	118,229	66.7	28.1	197.7	4,678	1		39,831	7,803
11.	59,583	20,011	39,572	93.3	47.0	185.8	2,172	0		10,729	4,288
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	467,687	595	XXX	1,416,382	593,182

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 1996	2 1997	3 1998	4 1999	5 2000	6 2001	7 2002	8 2003	9 2004	10 2005	11 One Year	12 Two Year
1. Prior	4,080,199	3,877,870	3,509,764	3,631,431	3,464,719	4,051,670	4,150,934	4,104,489	3,936,956	3,930,013	(6,943)	(174,476)
2. 1996	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	1,738,550	(16,547)	(21,075)
3. 1997	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	1,942,122	(20,167)	(32,603)
4. 1998	XXX	XXX	2,051,305	2,026,769	2,171,946	2,138,558	2,222,606	2,222,486	2,246,920	2,227,261	(19,659)	4,775
5. 1999	XXX	XXX	XXX	1,691,083	1,863,880	1,846,588	1,936,001	1,964,823	2,055,995	2,048,447	(7,548)	83,624
6. 2000	XXX	XXX	XXX	XXX	1,610,206	1,618,950	1,924,181	1,992,791	2,018,444	2,021,671	3,227	28,880
7. 2001	XXX	XXX	XXX	XXX	XXX	1,728,348	2,055,038	2,104,151	2,076,798	2,004,240	(72,558)	(99,911)
8. 2002	XXX	XXX	XXX	XXX	XXX	XXX	1,250,837	1,222,205	1,179,190	1,238,222	59,032	16,017
9. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	470,626	365,688	416,310	50,622	(54,316)
10. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	86,184	98,926	12,742	XXX
11. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	30,399	XXX	XXX
										12. Totals	(17,799)	(249,085)

SCHEDULE P - PART 3 - SUMMARY

Years in Which Losses Were Incurred	CUMULATIVE PAID NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										11	12
	1 1996	2 1997	3 1998	4 1999	5 2000	6 2001	7 2002	8 2003	9 2004	10 2005	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
1. Prior	000	743,288	1,265,604	1,599,252	1,923,164	2,188,740	2,307,046	2,501,052	2,737,394	2,904,759	XXX	XXX
2. 1996	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	1,661,604	XXX	XXX
3. 1997	XXX	653,265	1,110,163	1,340,057	1,519,030	1,633,102	1,705,525	1,769,450	1,812,432	1,838,056	XXX	XXX
4. 1998	XXX	XXX	721,916	1,245,640	1,552,087	1,761,112	1,902,492	1,946,192	2,015,501	2,060,890	XXX	XXX
5. 1999	XXX	XXX	XXX	686,918	1,185,332	1,466,033	1,627,526	1,658,754	1,734,067	1,827,087	XXX	XXX
6. 2000	XXX	XXX	XXX	XXX	759,838	1,237,516	1,532,059	1,637,902	1,771,898	1,866,599	XXX	XXX
7. 2001	XXX	XXX	XXX	XXX	XXX	727,783	1,210,266	1,461,707	1,652,384	1,749,284	XXX	XXX
8. 2002	XXX	XXX	XXX	XXX	XXX	XXX	459,740	553,991	781,826	950,162	XXX	XXX
9. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(103,954)	66,876	199,618	XXX	XXX
10. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	33,452	47,607	XXX	XXX
11. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	14,594	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 1996	2 1997	3 1998	4 1999	5 2000	6 2001	7 2002	8 2003	9 2004	10 2005
1. Prior	1,871,110	1,337,207	797,058	755,036	392,305	664,842	586,717	336,490	193,604	122,615
2. 1996	888,558	516,627	410,130	138,272	88,946	47,057	12,717	19,150	18,430	11,875
3. 1997	XXX	839,586	474,582	274,170	144,503	89,366	58,311	50,087	33,961	29,001
4. 1998	XXX	XXX	780,984	334,188	268,098	75,630	54,756	35,428	73,177	37,448
5. 1999	XXX	XXX	XXX	570,957	301,863	68,238	160,881	88,375	141,801	63,068
6. 2000	XXX	XXX	XXX	XXX	550,986	43,166	157,507	104,598	82,342	39,041
7. 2001	XXX	XXX	XXX	XXX	XXX	614,611	409,730	294,420	219,232	116,994
8. 2002	XXX	XXX	XXX	XXX	XXX	XXX	482,914	292,680	142,392	120,914
9. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	406,590	140,924	99,582
10. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	28,464	32,956
11. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	13,132

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

	1	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4	5	6	7	8	9
States, etc.	Is Insurer Licensed? (Yes or No)	2 Direct Premiums Written	3 Direct Premiums Earned	Dividends Paid or Credited to Policyholders on Direct Business	Direct Losses Paid (Deducting Salvage)	Direct Losses Incurred	Direct Losses Unpaid	Finance and Service Charges Not Included in Premiums	Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
1. Alabama AL	Yes	3,339	71,473	(91,344)	(30,367)	8,380,191	21,745,130	0	
2. Alaska AK	Yes	48,058	59,913	5,805	606,153	(348,219)	1,161,879	0	
3. Arizona AZ	Yes	(3,573)	(2,113)	(201,452)	6,470,034	7,090,647	11,328,662	0	305
4. Arkansas AR	Yes	(218,581)	(218,401)	(23,234)	13,462,259	22,508,271	11,889,445	0	
5. California CA	Yes	330,384	947,580	(2,970,928)	70,581,132	13,413,220	144,926,208	0	1,593
6. Colorado CO	Yes	(577,724)	(522,313)	(70,196)	4,877,645	(142,341)	2,180,002	0	
7. Connecticut CT	Yes	291,308	387,045	(397,597)	19,057,079	(1,098,353)	29,676,088	0	(733)
8. Delaware DE	Yes	(20,009)	(6,804)	291,564	2,427,798	1,545,065	1,456,117	0	
9. District of Columbia DC	Yes	(81,739)	236	(12,136)	2,287,237	(1,662,860)	7,047,942	0	
10. Florida FL	Yes	860,732	2,679,583	(864,733)	26,844,078	2,646,579	33,119,807	0	
11. Georgia GA	Yes	147,934	236,626	(345,815)	(4,020,351)	(10,578,310)	33,725,469	0	
12. Hawaii HI	Yes	147,854	291,338	(90,448)	1,591,670	60,868	1,864,636	0	
13. Idaho ID	Yes	(96,248)	(95,963)	(39,807)	95,798	(640,161)	147,310	0	
14. Illinois IL	Yes	1,203,165	1,335,580	(1,431,022)	60,275,150	(97,558,808)	263,884,917	0	
15. Indiana IN	Yes	741,460	752,557	(133,677)	2,230,897	1,899,365	5,364,241	0	
16. Iowa IA	Yes	(11,142)	(4,881)	(117,282)	1,158,978	(166,305)	3,446,019	0	
17. Kansas KS	Yes	92,760	92,929	(83,819)	1,699,619	(467,532)	2,880,713	0	
18. Kentucky KY	Yes	65,124	225,523	(24,156)	2,462,874	(5,212,654)	18,622,794	0	
19. Louisiana LA	Yes	(46,773)	(37,220)	4,629	6,707,926	3,790,942	6,407,177	0	
20. Maine ME	Yes	(6,029)	(5,909)	(5,078)	(1,597,240)	(1,848,030)	335,806	0	
21. Maryland MD	Yes	(236,362)	(218,284)	(189,909)	9,975,134	(9,564,062)	23,137,572	0	
22. Massachusetts MA	Yes	(26,765)	88,375	(136,746)	55,712,158	(11,574,839)	23,798,734	0	(787)
23. Michigan MI	Yes	(396,431)	(384,839)	3,200	12,791,284	5,600,246	12,316,322	0	
24. Minnesota MN	Yes	182,623	214,120	(217,866)	33,445,802	21,422,617	21,971,119	0	(852)
25. Mississippi MS	Yes	152,840	190,715	(16,707)	892,101	(419,851)	3,320,253	0	
26. Missouri MO	Yes	(150,491)	(77,823)	(7,539)	3,336,048	(806,682)	4,335,695	0	
27. Montana MT	Yes	(10,250)	(10,158)	515,350	174,706	(238,532)	658,657	0	
28. Nebraska NE	Yes	(915,506)	(915,418)	(42,811)	1,077,967	(1,284,530)	1,517,627	0	
29. Nevada NV	Yes	131,722	155,943	289	3,913,836	(2,000,920)	3,628,650	0	
30. New Hampshire NH	Yes	(74,291)	(72,864)	(19,343)	1,592,854	(722,406)	3,796,687	0	(539)
31. New Jersey NJ	Yes	603,584	1,111,180	(494,523)	28,043,352	(3,958,028)	65,286,359	0	
32. New Mexico NM	Yes	13,480	17,222	(38,320)	2,069,804	1,340,384	698,172	0	
33. New York NY	Yes	2,202,489	5,290,390	(774,463)	86,922,815	554,408	272,707,026	0	
34. North Carolina NC	Yes	168,624	181,733	133,751	17,580,149	11,865,700	14,435,676	0	(805)
35. North Dakota ND	Yes	(3,080)	(3,080)	(591)	312,361	423,844	204,926	0	
36. Ohio OH	Yes	334,321	414,048	(72,879)	13,090,231	2,743,555	13,046,894	0	516
37. Oklahoma OK	Yes	(13,396)	(13,370)	(116,759)	318,882	(1,443,166)	1,286,594	0	
38. Oregon OR	Yes	(1,457,519)	(1,405,944)	(349,488)	2,504,325	445,674	9,226,237	0	
39. Pennsylvania PA	Yes	(1,834,938)	(1,802,920)	(1,085,213)	19,917,836	8,888,310	45,845,458	0	(155)
40. Rhode Island RI	Yes	16,965	24,375	(14,666)	2,218,456	1,754,193	5,724,672	0	
41. South Carolina SC	Yes	803,892	874,940	(37,757)	4,788,963	2,405,437	12,352,707	0	
42. South Dakota SD	Yes	(106,768)	(106,707)	(34,929)	319,132	606,066	476,489	0	
43. Tennessee TN	Yes	271,894	281,242	134,670	13,053,377	7,938,889	16,043,464	0	
44. Texas TX	Yes	594,936	888,847	(690,873)	23,729,531	(11,908,006)	102,687,859	363	
45. Utah UT	Yes	1,438	1,776	(86,856)	757,175	254,244	634,135	0	
46. Vermont VT	Yes	(13,681)	(12,707)	(23,880)	266,092	58,150	923,705	0	
47. Virginia VA	Yes	421,036	492,896	(114,176)	22,040,232	8,160,169	14,408,404	0	
48. Washington WA	Yes	(116,684)	(43,894)	(33,516)	4,076,940	3,697,078	13,084,055	0	
49. West Virginia WV	Yes	(45,251)	(44,616)	58,004	639,838	(158,722)	77,155	0	
50. Wisconsin WI	Yes	1,902,091	1,912,070	(1,370,535)	14,081,038	2,993,357	10,606,879	0	(1,103)
51. Wyoming WY	Yes	18,332	18,362	(9,571)	126,598	60,110	31,163	0	
52. American Samoa AS	No	0	0	0	0	0	0	0	
53. Guam GU	Yes	0	0	0	0	0	0	0	
54. Puerto Rico PR	No	(43,259)	(43,259)	(23,349)	2,395,215	148,852	2,724,955	0	
55. U.S. Virgin Islands VI	No	0	0	0	0	0	0	0	
56. Canada CN	Yes	(1,191,631)	(642,214)	(46,355)	1,441,696	(7,465,243)	3,319,166	0	
57. Aggregate Other Aliens OT	XXX	154,187	653,377	0	5,382,171	(10,272,498)	2,855,819	0	0
58. Totals	(a) 52	4,208,447	13,200,294	(11,805,082)	606,176,468	(38,844,631)	1,308,379,649	363	(2,560)
DETAILS OF WRITE-INS									
5701. Asia	XXX	3,617	3,617	0	(35,176)	(1,629,132)	456,522	0	0
5702. Australia	XXX	0	89,263	0	0	(727)	(6,416)	0	0
5703. Europe	XXX	115,699	305,356	0	5,417,347	(8,318,059)	2,507,686	0	0
5798. Summary of remaining write-ins for Line 57 from overflow page	XXX	34,870	255,140	0	0	(324,580)	(101,973)	0	0
5799. Totals (Lines 5701 through 5703 + 5798) (Line 57 above)	XXX	154,187	653,377	0	5,382,171	(10,272,498)	2,855,819	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, the insured or the insured's operations.

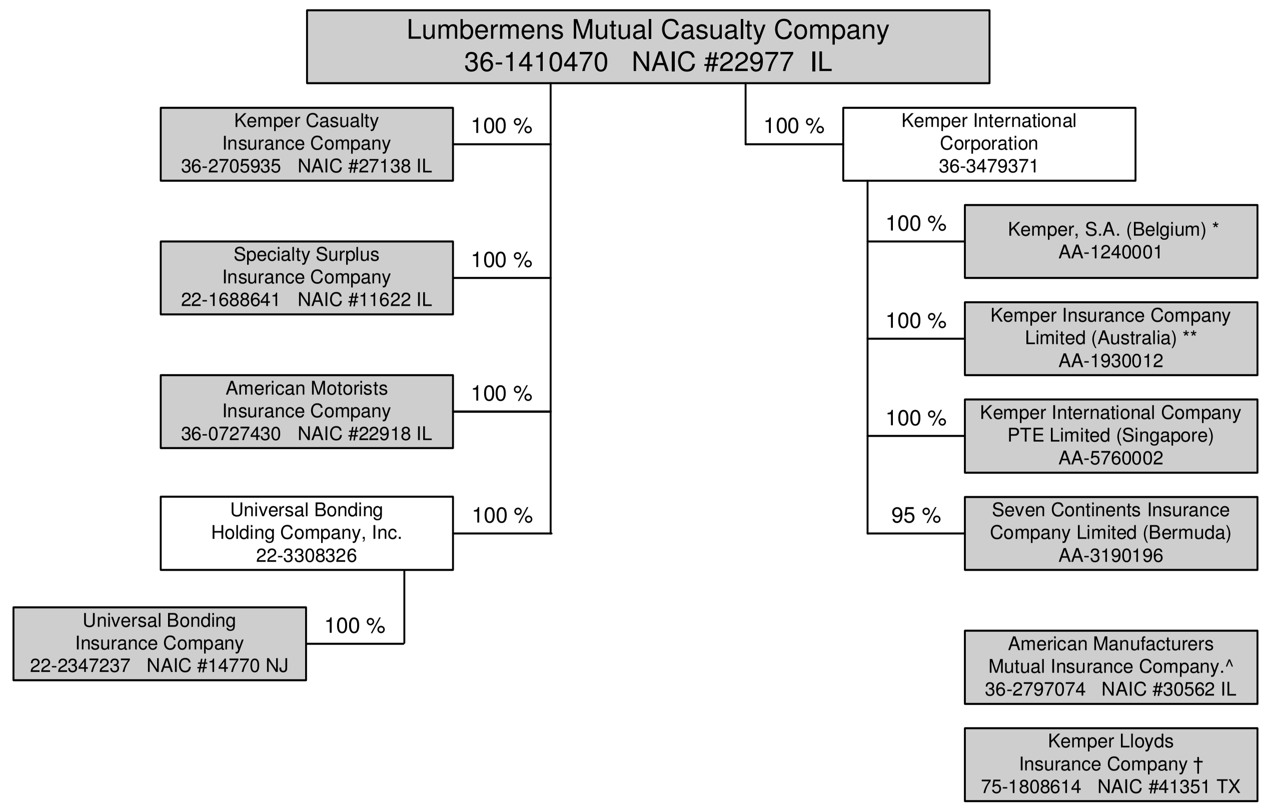
SCHEDULE T – PART 2
INTERSTATE COMPACT PRODUCTS – EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

		Direct Business Only					
		1	2	3	4	5	6
States, Etc.		Life (Group and Individual)	Annuities (Group and Individual)	Disability Income (Group and Individual)	Long-Term Care (Group and Individual)	Deposit-Type Contracts	Totals
1. Alabama	AL						0
2. Alaska	AK						0
3. Arizona	AZ						0
4. Arkansas	AR						0
5. California	CA						0
6. Colorado	CO						0
7. Connecticut	CT						0
8. Delaware	DE						0
9. District of Columbia	DC						0
10. Florida	FL						0
11. Georgia	GA						0
12. Hawaii	HI						0
13. Idaho	ID						0
14. Illinois	IL			60,000			60,000
15. Indiana	IN						0
16. Iowa	IA						0
17. Kansas	KS						0
18. Kentucky	KY						0
19. Louisiana	LA						0
20. Maine	ME						0
21. Maryland	MD						0
22. Massachusetts	MA						0
23. Michigan	MI						0
24. Minnesota	MN						0
25. Mississippi	MS						0
26. Missouri	MO						0
27. Montana	MT						0
28. Nebraska	NE						0
29. Nevada	NV						0
30. New Hampshire	NH						0
31. New Jersey	NJ						0
32. New Mexico	NM						0
33. New York	NY						0
34. North Carolina	NC						0
35. North Dakota	ND						0
36. Ohio	OH						0
37. Oklahoma	OK						0
38. Oregon	OR						0
39. Pennsylvania	PA						0
40. Rhode Island	RI						0
41. South Carolina	SC						0
42. South Dakota	SD						0
43. Tennessee	TN						0
44. Texas	TX						0
45. Utah	UT						0
46. Vermont	VT						0
47. Virginia	VA						0
48. Washington	WA						0
49. West Virginia	WV						0
50. Wisconsin	WI						0
51. Wyoming	WY						0
52. American Samoa	AS						0
53. Guam	GU						0
54. Puerto Rico	PR						0
55. U.S. Virgin Islands	VI						0
56. Canada	CN						0
57. Other Alien	OT						0
58. Totals		0	0	60,000	0	0	60,000

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 12/31/2005.