2 2 9 7 7 2 0 0 6 2 0 1 0 0 1 0 0

PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2006

OF THE CONDITION AND AFFAIRS OF THE

LUMBERMENS MUTUAL CASUALTY COMPANY

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

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

Country of Domicile United States

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

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

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

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

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

Internet Website Address www.kemperinsurance.com

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

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

Policyowner Relations Contact 1 Kemper Dr., 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

Douglas Sean Andrews #	John Thomas Chain Jr.	Peter Bannerman Hamilton	George Ralph Lewis
Arthur James Massolo #	David Barrett Mathis		

State of Illinois

County of Lake ss

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

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

Subscribed and sworn to before me this 20th day of February, 2007

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)	1,394,363,713	0	1,394,363,713	1,551,961,871
2. Stocks (Schedule D):				
2.1 Preferred stocks	0	0	0	0
2.2 Common stocks	87,791,985	0	87,791,985	93,861,274
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens	0	0	0	795,919
3.2 Other than first liens	0	0	0	8,257
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less $ 0 encumbrances)	0	0	0	0
4.2 Properties held for the production of income (less $ 0 encumbrances)	0	0	0	0
4.3 Properties held for sale (less $ 0 encumbrances)	4,172,747	0	4,172,747	4,241,182
5. Cash ($ (13,124,658) , Schedule E, Part 1), cash equivalents ($ 29,371,289 , Schedule E, Part 2) and short-term investments ($ 114,732,314 , Schedule DA)	130,978,945	0	130,978,945	308,270,902
6. Contract loans, (including $ 0 premium notes)	0	0	0	0
7. Other invested assets (Schedule BA)	28,898,383	0	28,898,383	28,686,507
8. Receivables for securities	0		0	32,476,418
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	1,646,205,773	0	1,646,205,773	2,020,302,330
11. Title plants less $ 0 charged off (for Title insurers only)	0	0	0	0
12. Investment income due and accrued	13,876,735	0	13,876,735	15,771,735
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	53,884,607	26,509,816	27,374,791	74,550,449
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ 0 earned but unbilled premium)	36,571,082	6,963,505	29,607,577	47,995,805
13.3 Accrued retrospective premium	35,058,804	920,264	34,138,540	58,656,689
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	236,048,560	0	236,048,560	336,460,424
14.2 Funds held by or deposited with reinsured companies	12,677,226	0	12,677,226	10,558,018
14.3 Other amounts receivable under reinsurance contracts	0	0	0	0
15. Amounts receivable relating to uninsured plans	0	0	0	0
16.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0	0
16.2 Net deferred tax asset	701,689,527	701,689,527	0	0
17. Guaranty funds receivable or on deposit	0	0	0	0
18. Electronic data processing equipment and software	0	0	0	0
19. Furniture and equipment, including health care delivery assets ($ 0)	0	0	0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0	0
21. Receivables from parent, subsidiaries and affiliates	3,209,996	0	3,209,996	0
22. Health care ($ 0) and other amounts receivable	0	0	0	0
23. Aggregate write-ins for other than invested assets	163,067,151	29,747,423	133,319,728	170,769,609
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	2,902,289,461	765,830,535	2,136,458,926	2,735,065,059
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0	0
26. Total (Lines 24 and 25)	2,902,289,461	765,830,535	2,136,458,926	2,735,065,059
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	34,475,110	6,169,022	28,306,088	32,433,674
2302. Reinsurance accounted for as a deposit	12,798,675	0	12,798,675	20,053,594
2303. Advance to claims service provider	12,254,905	0	12,254,905	16,548,677
2398. Summary of remaining write-ins for Line 23 from overflow page	103,538,461	23,578,401	79,960,060	101,733,664
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	163,067,151	29,747,423	133,319,728	170,769,609

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	1,087,138,476	1,416,382,931
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	33,129,868	36,560,978
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	488,494,066	593,179,696
4. Commissions payable, contingent commissions and other similar charges	1,414,716	989,595
5. Other expenses (excluding taxes, licenses and fees)	22,763,756	21,309,938
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	43,722,214	48,881,275
7.1 Current federal and foreign income taxes (including $ 0 on realized capital gains (losses))	6,053,607	8,256,345
7.2 Net deferred tax liability	0	0
8. Borrowed money $ 0 and interest thereon $ 0	0	0
9. Unearned premiums (Part 1A, Line 37, Column 5) (after deducting unearned premiums for ceded reinsurance of $ 5,084,880 and including warranty reserves of $ 787,949)	9,463,192	19,045,951
10. Advance premium	0	0
11. Dividends declared and unpaid:		
11.1 Stockholders	0	0
11.2 Policyholders	0	0
12. Ceded reinsurance premiums payable (net of ceding commissions)	12,639,888	19,035,927
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	3,787,577	10,619,735
14. Amounts withheld or retained by company for account of others	153,814,393	183,081,209
15. Remittances and items not allocated	7,281,322	12,222,013
16. Provision for reinsurance (Schedule F, Part 7)	0	0
17. Net adjustments in assets and liabilities due to foreign exchange rates	4,993,035	5,339,676
18. Drafts outstanding	0	0
19. Payable to parent, subsidiaries and affiliates	0	13,191,661
20. Payable for securities	0	0
21. Liability for amounts held under uninsured plans	0	0
22. Capital notes $ 0 and interest thereon $ 0	0	0
23. Aggregate write-ins for liabilities	88,170,204	178,654,978
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	1,962,866,314	2,566,751,908
25. Protected cell liabilities	0	0
26. Total liabilities (Lines 24 and 25)	1,962,866,314	2,566,751,908
27. Aggregate write-ins for special surplus funds	0	0
28. Common capital stock	0	0
29. Preferred capital stock	0	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	0
33. Unassigned funds (surplus)	(526,262,986)	(531,542,447)
34. Less treasury stock, at cost:		
34.1 0 shares common (value included in Line 28 $ 0)	0	0
34.2 0 shares preferred (value included in Line 29 $ 0)	0	0
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 39)	173,592,612	168,313,151
36. Totals (Page 2, Line 26, Col. 3)	2,136,458,926	2,735,065,059
DETAILS OF WRITE-INS		
2301. Accounts payable and other liabilities	88,170,204	164,401,923
2302. Reinsurance accounted for as a deposit	0	14,253,055
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	88,170,204	178,654,978
2701.		
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page	0	0
2799. Totals (Lines 2701 through 2703 plus 2798) (Line 27 above)	0	0
3001. Guaranty fund	1,500,000	1,500,000
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page	0	0
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)	1,500,000	1,500,000

STATEMENT OF INCOME

		1 Current Year	2 Prior Year
	UNDERWRITING INCOME		
1.	Premiums earned (Part 1, Line 34, Column 4)	19,243,766	21,300,321
	DEDUCTIONS:		
2.	Losses incurred (Part 2, Line 34, Column 7)	92,685,090	68,855,156
3.	Loss expenses incurred (Part 3, Line 25, Column 1)	49,706,782	81,151,050
4.	Other underwriting expenses incurred (Part 3, Line 25, Column 2)	90,577,836	96,054,126
5.	Aggregate write-ins for underwriting deductions	(1,574,700)	540,492
6.	Total underwriting deductions (Lines 2 through 5)	231,395,008	246,600,824
7.	Net income of protected cells	0	0
8.	Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	(212,151,242)	(225,300,503)
	INVESTMENT INCOME		
9.	Net investment income earned (Exhibit of Net Investment Income, Line 17)	78,435,208	73,925,822
10.	Net realized capital gains (losses) less capital gains tax of $ 0 (Exhibit of Capital Gains (Losses))	2,185,690	(4,946,946)
11.	Net investment gain (loss) (Lines 9 + 10)	80,620,898	68,978,876
	OTHER INCOME		
12.	Net gain (loss) from agents' or premium balances charged off (amount recovered $ 925,226 amount charged off $ 33,255,279)	(32,330,053)	21,454,888
13.	Finance and service charges not included in premiums	0	363
14.	Aggregate write-ins for miscellaneous income	35,954,782	33,608,958
15.	Total other income (Lines 12 through 14)	3,624,729	55,064,209
16.	Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(127,905,615)	(101,257,418)
17.	Dividends to policyholders	6,910,195	7,127,581
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)	(134,815,810)	(108,384,999)
19.	Federal and foreign income taxes incurred	(28,425,559)	(24,410,660)
20.	Net income (Line 18 minus Line 19) (to Line 22)	(106,390,251)	(83,974,339)
	CAPITAL AND SURPLUS ACCOUNT		
21.	Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	168,313,151	171,434,880
22.	Net income (from Line 20)	(106,390,251)	(83,974,339)
23.	Net transfers (to) from Protected Cell accounts	0	0
24.	Change in net unrealized capital gains or (losses) less capital gains tax of $ 0	1,986,345	2,373,602
25.	Change in net unrealized foreign exchange capital gain (loss)	346,641	179,366
26.	Change in net deferred income tax	(58,278,929)	67,534,087
27.	Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	101,371,987	(16,156,233)
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	66,243,668	26,921,788
38.	Change in surplus as regards policyholders for the year (Lines 22 through 37)	5,279,461	(3,121,729)
39.	Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)	173,592,612	168,313,151
	DETAILS OF WRITE-INS		
0501.	Change in premium deficiency reserve	(1,574,700)	540,492
0502.			
0503.			
0598.	Summary of remaining write-ins for Line 5 from overflow page	0	0
0599.	Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)	(1,574,700)	540,492
1401.	Other income	35,954,782	33,608,958
1402.			
1403.			
1498.	Summary of remaining write-ins for Line 14 from overflow page	0	0
1499.	Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	35,954,782	33,608,958
3701.	Provision for uncollectible reinsurance	66,243,668	28,800,055
3702.	Correction of errors	0	(1,878,267)
3703.			
3798.	Summary of remaining write-ins for Line 37 from overflow page	0	0
3799.	Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)	66,243,668	26,921,788

CASH FLOW

		1 Current Year	2 Prior Year
	Cash from Operations		
1.	Premiums collected net of reinsurance	94,366,123	121,303,463
2.	Net investment income	83,463,736	77,586,938
3.	Miscellaneous income	1,505,521	61,067,450
4.	Total (Lines 1 through 3)	179,335,380	259,957,851
5.	Benefit and loss related payments	324,948,791	680,407,190
6.	Net transfers to Separate, Segregated Accounts and Protected Cell Accounts	0	0
7.	Commissions, expenses paid and aggregate write-ins for deductions	246,597,315	345,924,776
8.	Dividends paid to policyholders	(18,320,480)	(45,229,907)
9.	Federal and foreign income taxes paid (recovered) $ 0 net of tax on capital gains (losses)	(26,222,821)	(2,924,637)
10.	Total (Lines 5 through 9)	527,002,805	978,177,422
11.	Net cash from operations (Line 4 minus Line 10)	(347,667,425)	(718,219,571)
	Cash from Investments		
12.	Proceeds from investments sold, matured or repaid:		
	12.1 Bonds	608,644,584	724,237,280
	12.2 Stocks	10,828,635	60,868,816
	12.3 Mortgage loans	768,916	1,301,825
	12.4 Real estate	0	32,137,952
	12.5 Other invested assets	1,250,908	21,949,623
	12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(344,633)	(22,340)
	12.7 Miscellaneous proceeds	32,476,418	427,801
	12.8 Total investment proceeds (Lines 12.1 to 12.7)	653,624,828	840,900,957
13.	Cost of investments acquired (long-term only):		
	13.1 Bonds	458,499,032	699,567,760
	13.2 Stocks	0	49,401,466
	13.3 Mortgage loans	0	0
	13.4 Real estate	0	0
	13.5 Other invested assets	588,000	0
	13.6 Miscellaneous applications	0	30,120,903
	13.7 Total investments acquired (Lines 13.1 to 13.6)	459,087,032	779,090,129
14.	Net increase (decrease) in contract loans and premium notes	0	0
15.	Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	194,537,796	61,810,828
	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)	(24,162,328)	26,697,849
17.	Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	(24,162,328)	26,697,849
	RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18.	Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and Line 17)	(177,291,957)	(629,710,894)
19.	Cash, cash equivalents and short-term investments:		
	19.1 Beginning of year	308,270,902	937,981,796
	19.2 End of year (Line 18 plus Line 19.1)	130,978,945	308,270,902

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	6,826	274,384	37,182	244,028
2.	Allied lines	40,376	778,415	12,716	806,075
3.	Farmowners multiple peril	0	0	0	0
4.	Homeowners multiple peril	(20,099)	(619,625)	4,516	(644,240)
5.	Commercial multiple peril	570,094	(103,012)	18,145	448,937
6.	Mortgage guaranty	0	0	0	0
8.	Ocean marine	469	(3,274)	(3,274)	469
9.	Inland marine	(66,169)	365,483	1,902	297,412
10.	Financial guaranty	0	0	0	0
11.1	Medical malpractice - occurrence	0	0	0	0
11.2	Medical malpractice - claims-made	0	0	0	0
12.	Earthquake	53,418	91,530	0	144,948
13.	Group accident and health	241,989	0	0	241,989
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	6,909,300	465,333	469,331	6,905,302
17.1	Other liability - occurrence	(1,108,404)	4,244,095	(125,319)	3,261,010
17.2	Other liability - claims-made	1,317,146	7,817,410	5,947,431	3,187,125
18.1	Products liability - occurrence	814,029	(663,010)	174,740	(23,721)
18.2	Products liability - claims-made	0	0	0	0
19.1,19.2	Private passenger auto liability	(1,869,728)	1,803,757	(71,682)	5,711
19.3,19.4	Commercial auto liability	(716,273)	128,730	73,392	(660,935)
21.	Auto physical damage	70,479	29,281	21,450	78,310
22.	Aircraft (all perils)	(291,045)	0	0	(291,045)
23.	Fidelity	5,651	12,690	0	18,341
24.	Surety	3,596,361	3,797,707	2,730,766	4,663,302
26.	Burglary and theft	0	13,206	977	12,229
27.	Boiler and machinery	0	0	0	0
28.	Credit	49,437	8,976	0	58,413
29.	International	0	0	0	0
30.	Reinsurance - Nonproportional Assumed Property	0	3,274	3,274	0
31.	Reinsurance - Nonproportional Assumed Liability	54,643	600,601	167,645	487,599
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	9,661,007	19,045,951	9,463,192	19,243,766
	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 through 3303 plus 3398) (Line 33 above)	0	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1A - RECAPITULATION OF ALL PREMIUMS

	Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (a)	2 Amount Unearned (Running More Than One Year from Date of Policy) (a)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1.	Fire	37,182				37,182
2.	Allied lines	12,716				12,716
3.	Farmowners multiple peril					0
4.	Homeowners multiple peril	4,516				4,516
5.	Commercial multiple peril	18,140	5			18,145
6.	Mortgage guaranty					0
8.	Ocean marine	218,591	(221,865)			(3,274)
9.	Inland marine		1,902			1,902
10.	Financial guaranty					0
11.1	Medical malpractice - occurrence					0
11.2	Medical malpractice - claims-made					0
12.	Earthquake					0
13.	Group accident and health					0
14.	Credit accident and health (group and individual)					0
15.	Other accident and health					0
16.	Workers' compensation	469,331				469,331
17.1	Other liability - occurrence	445,622	(570,941)			(125,319)
17.2	Other liability - claims-made	5,672,793	274,638			5,947,431
18.1	Products liability - occurrence	12,277	162,463			174,740
18.2	Products liability - claims-made					0
19.1,19.2	Private passenger auto liability	(71,682)				(71,682)
19.3,19.4	Commercial auto liability	73,390	2			73,392
21.	Auto physical damage	21,450				21,450
22.	Aircraft (all perils)					0
23.	Fidelity					0
24.	Surety	2,409,604	321,162			2,730,766
26.	Burglary and theft	977				977
27.	Boiler and machinery					0
28.	Credit					0
29.	International					0
30.	Reinsurance - Nonproportional Assumed Property	3,274				3,274
31.	Reinsurance - Nonproportional Assumed Liability	150,813	16,832			167,645
32.	Reinsurance - Nonproportional Assumed Financial Lines					0
33.	Aggregate write-ins for other lines of business	0	0	0	0	0
34.	TOTALS	9,478,994	(15,802)	0	0	9,463,192
35.	Accrued retrospective premiums based on experience					
36.	Earned but unbilled premiums					
37.	Balance (Sum of Line 34 through 36)					9,463,192
	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) State here basis of computation used in each case . Daily Pro-Rata

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B - PREMIUMS WRITTEN

	Line of Business	1 Direct Business (a)	Reinsurance Assumed 2 From Affiliates	Reinsurance Assumed 3 From Non-Affiliates	Reinsurance Ceded 4 To Affiliates	Reinsurance Ceded 5 To Non-Affiliates	6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
1.	Fire	(7,512)	(1,699)	3,413		(12,624)	6,826
2.	Allied lines	(6,154)	3,799	84,248		41,517	40,376
3.	Farmowners multiple peril			41		41	0
4.	Homeowners multiple peril	(711)	(6,719)	5,846		18,515	(20,099)
5.	Commercial multiple peril	(3,856,545)	(84,904)	(405,429)		(4,916,972)	570,094
6.	Mortgage guaranty						0
8.	Ocean marine	(917)	631	5,825		5,070	469
9.	Inland marine	(24,588)	(199,925)	88,803		(69,541)	(66,169)
10.	Financial guaranty						0
11.1	Medical malpractice - occurrence						0
11.2	Medical malpractice - claims-made			1,469		1,469	0
12.	Earthquake		(3,693)	(6,801,339)		(6,858,450)	53,418
13.	Group accident and health	717,287		(9,459,575)		(8,984,277)	241,989
14.	Credit accident and health (group and individual)						0
15.	Other accident and health	2,507		16,493,174		16,493,174	2,507
16.	Workers' compensation	1,340,583	3,475,461	30,707	388,242	(2,450,791)	6,909,300
17.1	Other liability - occurrence	28,029	461,629	(1,693,134)		(95,072)	(1,108,404)
17.2	Other liability - claims-made	542,979	1,008	(624,802)		(1,397,961)	1,317,146
18.1	Products liability - occurrence	842,317	(19,705)	(1,933,533)		(1,924,950)	814,029
18.2	Products liability - claims-made		(470,464)	(24,506,348)		(24,976,812)	0
19.1,19.2	Private passenger auto liability	(2,026)	16,974	(9,400,395)		(7,515,719)	(1,869,728)
19.3,19.4	Commercial auto liability	(576,876)	704,214	26,779,170		27,622,781	(716,273)
21.	Auto physical damage	63,362	78,649	4,713,675		4,785,207	70,479
22.	Aircraft (all perils)	(3,816)	15	(291,060)		(3,816)	(291,045)
23.	Fidelity	(28)				(5,679)	5,651
24.	Surety	717,681	2,923,189	35,998		80,507	3,596,361
26.	Burglary and theft						0
27.	Boiler and machinery						0
28.	Credit	173,226	19,816			143,605	49,437
29.	International						0
30.	Reinsurance - Nonproportional Assumed Property	XXX		517,715		517,715	0
31.	Reinsurance - Nonproportional Assumed Liability	XXX		4,597,352		4,542,709	54,643
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	(51,202)	6,898,276	(1,758,179)	388,242	(4,960,354)	9,661,007
	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 through 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 Prior Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
1.	Fire	271,974	452,215	1,114,165	(389,976)	(5,692,591)	1,905,239	(7,987,806)	(3,273.3)
2.	Allied lines	18,449	915,734	735,956	198,227	(5,500,370)	459,578	(5,761,721)	(714.8)
3.	Farmowners multiple peril		255,505	255,505	0	277	5,499	(5,222)	0.0
4.	Homeowners multiple peril	973,104	4,966,984	3,849,302	2,090,786	2,052,828	5,557,603	(1,413,989)	219.5
5.	Commercial multiple peril	9,784,218	63,197,935	28,477,551	44,504,602	49,877,430	80,817,786	13,564,246	3,021.4
6.	Mortgage guaranty				0	0	0	0	0.0
8.	Ocean marine	347,490	289,457	595,602	41,345	(1,914,901)	535,878	(2,409,434)	(513,738.6)
9.	Inland marine	557,173	85,806	98,038	544,941	250,686	(449,701)	1,245,328	418.7
10.	Financial guaranty				0	0	0	0	0.0
11.1	Medical malpractice - occurrence	15,000		6,000	9,000	56,690	183,150	(117,460)	0.0
11.2	Medical malpractice - claims-made	1,407,632	1,124,231	1,052,688	1,479,175	1,560,664	3,601,834	(561,995)	0.0
12.	Earthquake		(5,580,576)	(5,580,576)	0	(68,279)	(46,409)	(21,870)	(15.1)
13.	Group accident and health	11,487,122	(4,381,582)	3,531,982	3,573,558	23,810,540	27,697,506	(313,408)	(129.5)
14.	Credit accident and health (group and individual)				0	0	0	0	0.0
15.	Other accident and health	12,414	13,281,670	13,281,670	12,414	(140,127)	(241,516)	113,803	4,539.4
16.	Workers' compensation	89,445,651	190,056,928	102,634,372	176,868,207	659,490,404	851,544,164	(15,185,553)	(219.9)
17.1	Other liability - occurrence	208,295,723	147,398,868	164,689,805	191,004,786	80,171,219	153,647,110	117,528,895	3,604.1
17.2	Other liability - claims-made	31,489,033	51,016,647	100,247,908	(17,742,228)	102,155,642	84,854,743	(441,329)	(13.8)
18.1	Products liability - occurrence	16,667,010	24,505,938	110,287,797	(69,114,849)	(13,074,501)	(53,371,349)	(28,818,001)	121,487.3
18.2	Products liability - claims-made		(10,732,314)	(5,209,480)	(5,522,834)	53,251	36,521	(5,506,104)	0.0
19.1,19.2	Private passenger auto liability	12,254,197	17,055,221	10,346,400	18,963,018	16,965,180	40,480,974	(4,552,776)	(79,719.4)
19.3,19.4	Commercial auto liability	28,881,298	56,459,132	57,660,554	27,679,876	30,706,613	42,755,998	15,630,491	(2,364.9)
21.	Auto physical damage	2,336	3,312,520	3,534,692	(219,836)	34,198	(1,478,300)	1,292,662	1,650.7
22.	Aircraft (all perils)	5,810,262	9,819	5,820,081	0	18,451,289	10,217,615	8,233,674	(2,829.0)
23.	Fidelity	315,103	389,335	395,459	308,979	382,481	(640,154)	1,331,614	7,260.3
24.	Surety	(9,870,262)	6,824,379	(25,604,044)	22,558,161	23,507,663	54,196,407	(8,130,583)	(174.4)
26.	Burglary and theft	(61)	12,580	12,534	(15)	0	1,927	(1,942)	(15.9)
27.	Boiler and machinery	4,964	475,872	128,729	352,107	(48,238)	326,656	(22,787)	0.0
28.	Credit	(407,541)	(987,393)	(729,255)	(665,679)	33	(137,593)	(528,053)	(904.0)
29.	International				0	0	0	0	0.0
30.	Reinsurance - Nonproportional Assumed Property	XXX	2,494,161	2,392,935	101,226	519,775	620,999	2	0.0
31.	Reinsurance - Nonproportional Assumed Liability	XXX	43,858,687	18,564,133	25,294,554	103,530,620	113,300,766	15,524,408	3,183.8
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	407,762,289	606,757,759	592,590,503	421,929,545	1,087,138,476	1,416,382,931	92,685,090	481.6
	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 through 3303 + 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	127,215	(1,645,258)	958,041	(2,476,084)	638,740	3,350,690	7,205,937	(5,692,591)	(1,089,081)
2.	Allied lines	39,869	850,780	842,142	48,507	18,730	528,857	6,096,464	(5,500,370)	(430,379)
3.	Farmowners multiple peril		594	594	0		2,056	1,779	277	77
4.	Homeowners multiple peril	683,844	2,508,608	1,732,624	1,459,828	400,489	601,956	409,445	2,052,828	878,943
5.	Commercial multiple peril	15,386,098	60,288,410	18,255,376	57,419,132	(828,204)	(826,513)	5,886,985	49,877,430	64,948,075
6.	Mortgage guaranty				0				0	
8.	Ocean marine	1,040,914	452,019	1,285,256	207,677	1,294	118,306	2,242,178	(1,914,901)	(240,684)
9.	Inland marine	726,157	58,881	560,633	224,405	169,892	(7,024)	136,587	250,686	826,884
10.	Financial guaranty				0				0	
11.1	Medical malpractice - occurrence		92,092	28,750	63,342	(2,398)	76,719	80,973	56,690	93,271
11.2	Medical malpractice - claims-made	635,020	282,721	484,056	433,685	947,846	1,272,809	1,093,676	1,560,664	1,141,034
12.	Earthquake		12,458	12,717	(259)		(68,155)	(135)	(68,279)	207,105
13.	Group accident and health	60,000,346	17,470,723	54,000,311	23,470,758	1,440,771	45,693	1,146,682	(a) 23,810,540	742,054
14.	Credit accident and health (group and individual)				0				0	
15.	Other accident and health		508,150	508,150	0	(96,596)	266,212	309,743	(a) (140,127)	13,961
16.	Workers' compensation	455,265,025	903,992,568	417,225,435	942,032,158	(35,062,768)	(36,314,540)	211,164,446	659,490,404	214,077,306
17.1	Other liability - occurrence	83,745,494	108,683,808	74,559,118	117,870,184	32,596,039	8,221,200	78,516,204	80,171,219	77,815,993
17.2	Other liability - claims-made	68,420,786	49,742,561	60,923,173	57,240,174	39,490,393	35,417,913	29,992,838	102,155,642	15,503,043
18.1	Products liability - occurrence	12,903,473	33,808,322	49,010,885	(2,299,090)	14,501,804	(18,652,517)	6,624,698	(13,074,501)	68,141,007
18.2	Products liability - claims-made		469,317	469,317	0		231,906	178,655	53,251	158,020
19.1,19.2	Private passenger auto liability	9,252,414	18,301,088	14,875,362	12,678,140	5,812,845	10,668,586	12,194,391	16,965,180	9,819,185
19.3,19.4	Commercial auto liability	22,928,666	24,412,492	23,206,698	24,134,460	2,526,328	30,766,529	26,720,704	30,706,613	10,177,560
21.	Auto physical damage	26,810	175,547	155,102	47,255	252,036	626,411	891,504	34,198	411,008
22.	Aircraft (all perils)	47,566,090	9,375,993	47,829,960	9,112,123	2,201,082	1,012,714	(6,125,370)	18,451,289	4,389,664
23.	Fidelity	113,102	250,440	262,440	101,102	362,929	92,486	174,036	382,481	62,972
24.	Surety	13,407,753	26,910,341	13,716,060	26,602,034	14,773,162	(14,492,913)	3,374,620	23,507,663	6,901,786
26.	Burglary and theft				0				0	10,482
27.	Boiler and machinery	50	6,150	85,501	(79,301)	27,067	7,744	3,748	(48,238)	168,085
28.	Credit	100	30	94	36	328	(328)	3	33	114,938
29.	International				0				0	
30.	Reinsurance - Nonproportional Assumed Property	XXX	1,153,819	628,364	525,455	XXX	(3,808,390)	(3,802,710)	519,775	(5,314)
31.	Reinsurance - Nonproportional Assumed Liability	XXX	117,359,347	35,972,617	81,386,730	XXX	65,418,593	43,274,703	103,530,620	13,657,071
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	792,269,226	1,375,522,001	817,588,776	1,350,202,451	80,171,809	84,557,000	427,792,784	1,087,138,476	488,494,066
	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 through 3303 + 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	46,460,279			46,460,279
1.2 Reinsurance assumed	25,364,713			25,364,713
1.3 Reinsurance ceded	29,633,218			29,633,218
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	42,191,774	0	0	42,191,774
2. Commission and brokerage:				
2.1 Direct, excluding contingent		495,645		495,645
2.2 Reinsurance assumed, excluding contingent		4,753,930		4,753,930
2.3 Reinsurance ceded, excluding contingent		2,560,733		2,560,733
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	2,688,842	0	2,688,842
3. Allowances to manager and agents				0
4. Advertising				0
5. Boards, bureaus and associations	15,030	139,086		154,116
6. Surveys and underwriting reports				0
7. Audit of assureds' records		3,669		3,669
8. Salary and related items:				
8.1 Salaries	5,906,796	28,913,902	690,421	35,511,119
8.2 Payroll taxes	450,149	1,856,874	41,614	2,348,637
9. Employee relations and welfare	730,459	1,524,729	44,932	2,300,120
10. Insurance		11,765,795		11,765,795
11. Directors' fees		255,228		255,228
12. Travel and travel items	53,357	159,111		212,468
13. Rent and rent items	329,909	3,691,050		4,020,959
14. Equipment		167,663		167,663
15. Cost or depreciation of EDP equipment and software		1,041,732		1,041,732
16. Printing and stationery	15,782	205,334	144	221,260
17. Postage, telephone and telegraph, exchange and express	3,758	500,104	5,698	509,560
18. Legal and auditing	5,261	10,787,905	1,070,374	11,863,540
19. Totals (Lines 3 to 18)	7,510,501	61,012,182	1,853,183	70,375,866
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of $ (1,330,857)		4,525,894		4,525,894
20.2 Insurance department licenses and fees		182,442		182,442
20.3 Gross guaranty association assessments		(1,330,857)		(1,330,857)
20.4 All other (excluding federal and foreign income and real estate)		(2,995,862)		(2,995,862)
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)	0	381,617	0	381,617
21. Real estate expenses			330,538	330,538
22. Real estate taxes			95,018	95,018
23. Reimbursements by uninsured plans				0
24. Aggregate write-ins for miscellaneous expenses	4,507	26,495,195	278,752	26,778,454
25. Total expenses incurred	49,706,782	90,577,836	2,557,491	(a) 142,842,109
26. Less unpaid expenses - current year	488,494,066	67,768,232	132,454	556,394,752
27. Add unpaid expenses - prior year	593,179,696	70,969,999	210,808	664,360,503
28. Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29. Amounts receivable relating to uninsured plans, current year				0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	154,392,412	93,779,603	2,635,845	250,807,860
DETAILS OF WRITE-INS				
2401. All other	4,507	26,495,195	278,752	26,778,454
2402.				
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page	0	0	0	0
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	4,507	26,495,195	278,752	26,778,454

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

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. Government bonds	(a) 27,923,850	25,771,817
1.1	Bonds exempt from U.S. tax	(a) 5,149	2,774
1.2	Other bonds (unaffiliated)	(a) 27,307,615	29,505,086
1.3	Bonds of affiliates	(a) 0	
2.1	Preferred stocks (unaffiliated)	(b)	
2.11	Preferred stocks of affiliates	(b)	
2.2	Common stocks (unaffiliated)	3,652	3,652
2.21	Common stocks of affiliates	6,749,708	6,749,708
3.	Mortgage loans	(c) 30,311	26,313
4.	Real estate	(d) 438,066	438,066
5.	Contract loans		
6.	Cash, cash equivalents and short-term investments	(e) 12,569,309	10,635,244
7.	Derivative instruments	(f)	
8.	Other invested assets		
9.	Aggregate write-ins for investment income	7,928,474	7,928,474
10.	Total gross investment income	82,956,134	81,061,134
11.	Investment expenses		(g) 2,557,491
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g)
13.	Interest expense		(h) 0
14.	Depreciation on real estate and other invested assets		(i) 68,435
15.	Aggregate write-ins for deductions from investment income		0
16.	Total (Lines 11 through 15)		2,625,926
17.	Net Investment Income - (Line 10 minus Line 16)		78,435,208
	DETAILS OF WRITE-INS		
0901.	Income from other sources	7,928,474	7,928,474
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)	7,928,474	7,928,474
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 $ 1,492,857 accrual of discount less $ 4,982,945 amortization of premium and less $ 2,752,301 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 $ for company's occupancy of its own buildings; and excludes $ interest on encumbrances.
(e) Includes $ 2,514,590 accrual of discount less $ 1,118,036 amortization of premium and less $ 121,045 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 $ 68,435 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 Unrealized Increases (Decreases) by Adjustment	4 Total
1.	U.S. Government bonds	(5,079,651)			(5,079,651)
1.1	Bonds exempt from U.S. tax	225			225
1.2	Other bonds (unaffiliated)	943,606	(60,000)	233,302	1,116,908
1.3	Bonds of affiliates	0	0	0	0
2.1	Preferred stocks (unaffiliated)				0
2.11	Preferred stocks of affiliates	0	0	0	0
2.2	Common stocks (unaffiliated)	1,249,384	(699)	32,958	1,281,643
2.21	Common stocks of affiliates	5,405,107	0	(1,927,405)	3,477,702
3.	Mortgage loans	(35,260)	0		(35,260)
4.	Real estate				0
5.	Contract loans				0
6.	Cash, cash equivalents and short-term investments	(631)			(631)
7.	Derivative instruments				0
8.	Other invested assets	(397)	108,008	765,868	873,479
9.	Aggregate write-ins for capital gains (losses)	0	(344,002)	2,881,621	2,537,619
10.	Total capital gains (losses)	2,482,383	(296,693)	1,986,344	4,172,034
	DETAILS OF WRITE-INS				
0901.	Change in deferred gain on investment transfers from subsidiaries			2,881,621	2,881,621
0902.	Realized F/X loss related to repatriation of Canadian branch assets		(344,002)	0	(344,002)
0903.				0	0
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	(344,002)	2,881,621	2,537,619

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks	0	0	0
2.2 Common stocks	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	0	0	0
3.2 Other than first liens	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company	0	0	0
4.2 Properties held for the production of income	0	0	0
4.3 Properties held for sale	0	0	0
5. Cash, (Schedule-E, Part 1), cash equivalents (Schedule-E, Part 2) and short-term investments (Schedule DA)	0	0	0
6. Contract loans	0	0	0
7. Other invested assets (Schedule BA)	0	1,305	1,305
8. Receivables for securities	0	0	0
9. Aggregate write-ins for invested assets	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	0	1,305	1,305
11. Title plants (for Title insurers only)	0	0	0
12. Investment income due and accrued	0	0	0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	26,509,816	50,808,774	24,298,958
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,963,505	8,201,816	1,238,311
13.3 Accrued retrospective premium	920,264	1,632,790	712,526
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	701,689,527	759,968,456	58,278,929
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	29,747,423	46,589,381	16,841,958
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	765,830,535	867,202,522	101,371,987
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0
26. Total (Lines 24 and 25)	765,830,535	867,202,522	101,371,987
DETAILS OF WRITE-INS			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998)(Line 9 above)	0	0	0
2301. Insurance recoveries related to UBIC	11,675,000	11,675,000	0
2302. Amounts receivable under high deductible policies	6,169,022	11,430,098	5,261,076
2303. Other admitted assets	11,903,401	23,484,283	11,580,882
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0
2399. Totals (Lines 2301 through 2303 plus 2398)(Line 23 above)	29,747,423	46,589,381	16,841,958

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 2006 and 2005.

A. Accounting Practices

The accompanying statutory financial statements of the Company have been prepared in conformity with the National Association of Insurance Commissioners (the "NAIC") *Accounting Practices and Procedures Manual* (the "Manual") and with 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, 2006 and 2005 reflects increases of approximately $453 million and $571 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, 2006	December 31, 2005	Decrease
Loss and LAE Reserve Discounting	$ 379	$ 468	$ (89)
Prepaid ULAE	33	45	(12)
Provision for Uncollectible Reinsurance	(10)	4	(14)
Annuity Reinsurance Contracts	9	12	(3)
Subsidiary GAAP Financials	9	9	0
LBA & PDR Discounting	17	17	0
CIGA admitted asset	16	16	0
Reporting of Correction of Errors	0	0	0
Retroactive Reinsurance Agreements	0	0	0
Total	$ 453	$ 571	$ (118)

1. Loss and LAE Reserve Discounting. Pursuant to a prescribed accounting practice, the Company discounts its loss and loss adjustment expense ("LAE") reserves at 4.2% in the accompanying financial statements. Prior to 2003, the Company discounted at 3.5% (or the required statutory rate) only certain categories of liabilities on its balance sheet, essentially the tabular discount on permanent total/lifetime benefit liabilities, pursuant to prescribed accounting practices (see Note 32). At December 31, 2006, the total amount of the tabular and non-tabular discount, included on the balance sheet and on Schedule P, was approximately $532 million; the total was approximately $626 million at December 31, 2005. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been under the tabular discount by approximately $379 million at December 31, 2006 and $468 million at December 31, 2005. The Company's current invested asset book yield approaches the 4.2% discount rate (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, 2006 and 2005 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 $33 million at December 31, 2006; the total was approximately $45 million at December 31, 2005. Approximately $12 million of ULAE related to these two claim service providers was expensed in 2006 and $21 million in 2005.

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 $55 million at December 31, 2006 and $122 million at December 31, 2005. The Schedule F penalty otherwise prescribed by the Manual would have been approximately $45 million at December 31, 2006 and $126 million at December 31, 2005. 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 $8 million at December 31, 2006 and $19 million at

NOTES TO FINANCIAL STATEMENTS

December 31, 2005. The total for write-offs of reinsurance recoverables was immaterial in 2006 and approximately $8 million in 2005, net of corresponding reductions of the provision for uncollectible reinsurance.

4. Annuity Reinsurance Contracts. Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2006 and 2005 reflects as admitted assets the estimated value of certain annuity reinsurance contracts. As reflected on the balance sheet, the annuity reinsurance contracts totaled approximately $14 million at December 31, 2006 and 2005. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by approximately $9 million at December 31, 2006 and approximately $12 million at December 31, 2005.

5. U.S. Generally Accepted Accounting Principles ("GAAP") Audited Financial Statements of Certain Subsidiaries. At December 31, 2006, the Company has two overseas insurance company subsidiaries with a statement value (surplus) of $7.6 million and one active U.S. non-insurance company subsidiary with equity of $1.9 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 if the GAAP statements were prepared. 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 2006 statutory financial statements.

6. Discounting Loss Based Assessment ("LBA") and Premium Deficiency Reserve ("PDR") Liabilities. Pursuant to a prescribed accounting practice, the Company discounts its LBA and PDR liabilities at 4.2%. The discount included on the balance sheet totaled approximately $17 million at December 31, 2006 and 2005.

7. CIGA Admitted Asset. Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2006 and 2005 reflects as an admitted asset a receivable for certain refunds due the Company from the California Insurance Guarantee Association ("CIGA"). The receivable totaled approximately $16 million at December 31, 2006 and 2005. The Company anticipates that it will receive substantially all the refunds from CIGA in 2007.

8. 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 income 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 approximately $1.9 million, including a $2.1 million correction of an error related to an intercompany reinsurance agreement, have been recorded as direct charges to surplus in the Company's 2005 financial statements. The Division of Insurance granted a permitted practice to the Company to record in its 2005 statutory financial statements the corrections of errors through current year operations and did not require the Company to restate its 2004 financial statements. This permitted practice had no impact on the Company's reported surplus at December 31, 2006 or 2005.

9. Retroactive Reinsurance Agreements Treated as Prospective. Certain of the Company's 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 retroactive reinsurance. The Division of Insurance granted a permitted accounting practice to the Company for the 2006 and 2005 statutory financial statements to record these reinsurance agreements as prospective contracts. In the absence of the permitted practice, the Company's restricted surplus would have increased, although its total surplus would not have changed. The Company has not quantified what the increase to restricted surplus would have been absent the permitted practice.

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

The preparation of financial statements in conformity with statutory accounting principles 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 LAE, although supported by actuarial analysis and other data, are ultimately based on management's reasoned expectations of future events. As further described in Note 33, estimates of losses and LAE related to

NOTES TO FINANCIAL STATEMENTS

environmental and asbestos claims are also subject to a greater degree of uncertainty and variability. Policyholder dividend recalls (accrued retrospective premiums) are estimated based on similar assumptions used to estimate the ultimate liabilities for losses and LAE.

C. **Accounting Policy**
The Company's significant accounting policies are as follows:

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

The amortized cost of bonds is adjusted for amortization of premiums and accretion of discounts using a level effective yield method to maturity, or in the case of loan-backed securities, over the estimated life of the security. Such amortization is included in investment income. Amortization of the discount or premium from loan-backed securities is 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.

Unaffiliated common and preferred stocks are generally carried at fair value.

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.

Real estate owned is held for sale and is carried at the lower of its carrying value 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 its estimated fair value, net of anticipated costs to sell, which approximates its underlying statutory equity.

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

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

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

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

Because the ultimate settlement of claims is subject to future events, no single loss or LAE reserve can be considered accurate 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

NOTES TO FINANCIAL STATEMENTS

low estimate. The high and low ends of the range do not correspond to an absolute best-and-worst case scenario of ultimate settlements because such estimates may be the result of unlikely assumptions. Management's best estimate therefore does not include the set of all possible outcomes but only those outcomes that are considered reasonable.

The Company anticipates investment income as a factor in determining loss and LAE reserves, LBA, PDR, and the provision for reinsurance (see Note 30).

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

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

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

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 2005 operations. During 2005, the Company reported the following corrections of errors reflected in the accompanying statutory financial statements and correspondingly decreased surplus in 2005:

1. $2.1 million was related to an intercompany reinsurance agreement; 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.

3. BUSINESS COMBINATIONS AND GOODWILL

None.

4. DISCONTINUED OPERATIONS

None.

5. INVESTMENTS

The fair values of the Company's cash equivalents, short-term investments, bonds, and unaffiliated common and preferred stocks have been determined using prices provided by the Securities Valuation Office of the NAIC (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 brokers 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 loan-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 2006, the Company reclassified its remaining real estate owned, an office/warehouse building in Lake Zurich, Illinois, from held for sale to company occupied. In June 2006, however, the Company revised its plans for the sale of its remaining real estate and again classified it as held for sale. The fair value reported for real estate is based on a 2003 appraisal obtained by the Company.

In 2005, the Company received net proceeds of $29.8 million at the closing of the sale of its home office complex in Long Grove, Illinois, and recorded a realized gain of $295 thousand.

During 2006, through borrower repayments and a sale, the Company disposed of its remaining mortgage loans not previously written off. The Company recorded in 2006 a $35 thousand realized

NOTES TO FINANCIAL STATEMENTS

gain on the sale and investment income of $26 thousand from its mortgage loan portfolio. The statutory value of mortgage loans at December 31, 2005 had declined to $804 thousand. 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.

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

During 2006, the Company recorded impairment writedowns of $1.1 million on its real estate joint venture. The Company also recorded a $17 thousand impairment writeoff of a venture capital limited partnership interest.

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, 2006.

8. DERIVATIVE INSTRUMENTS

None.

9. INCOME TAXES

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

		December 31, 2006		December 31, 2005
Total of gross deferred tax assets	$	704,530,192		763,361,440
Total of deferred tax liabilities		(2,840,665)		(3,392,984)
Net deferred tax asset		701,689,527		759,968,456
Deferred tax asset nonadmitted		(701,689,527)		(759,968,456)
Net admitted deferred tax asset		0		0
Decrease in nonadmitted asset	$	58,278,929		

All deferred tax liabilities were recognized.

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

		December 31, 2006		December 31, 2005
Federal	$	(28,437,441)		(22,768,550)
Foreign		11,882		(1,642,110)
Federal and foreign income taxes incurred	$	(28,425,559)		(24,410,660)

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, 2006		December 31, 2005
Deferred tax assets:				
Loss carryforwards	$	563,767,232		544,403,562
Receivables		41,544,818		83,627,330
Investments		37,545,715		58,938,405
Accrued liabilities		24,063,998		24,402,494
Reserves		15,060,515		24,834,386
Section 197 intangibles		9,011,108		12,088,175
Other		13,536,806		15,067,088
Total deferred tax assets		704,530,192		763,361,440
Nonadmitted deferred tax assets		(701,689,527)		(759,968,456)
Admitted deferred tax assets		2,840,665		3,392,984
Deferred tax liabilities:				
Salvage and subrogation		(1,601,198)		(2,280,717)
Investments		(1,239,467)		(1,112,267)
Total deferred tax liabilities		(2,840,665)		(3,392,984)
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, 2006		December 31, 2005		Change
Total deferred tax assets	$	704,530,192		763,361,440	$	(58,831,248)
Total deferred tax liabilities		(2,840,665)		(3,392,984)		552,319
Net deferred tax asset	$	701,689,527		759,968,456		(58,278,929)
Tax effect of unrealized gains (losses)						0
Changes in net deferred income tax					$	(58,278,929)

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, 2006
Provision computed at statutory rate	$	(47,185,534)
Loss carryforwards		40,150,122
Receivables		36,163,217
Prior year tax refund		(21,728,417)
Investments		21,198,994
Reserves		4,899,327
Other		(3,644,339)
Total	$	29,853,370
Federal and foreign income taxes incurred	$	(28,425,559)
Change in net deferred income taxes		58,278,929
Total statutory income taxes	$	29,853,370

At December 31, 2006, the Company had $1,581,813,249 of operating loss carryforward which originated and expires as follows:

Origination Year		Expiration Year		Amount
2000		2020		$179,078,553
2001		2021		$404,748,183
2002		2022		$ 38,885,269
2003		2023		$211,667,562
2004		2024		$399,689,405
2005		2025		$177,704,868
2006		2026		$170,039,409

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: American Motorists Insurance Company ("AMICO"), AMICO Realty Corporation, American Underwriting Corporation, Kemper Casualty Insurance Company, Kemper International Corporation, Kemper Lloyds Insurance Company, Kemper Realty Corporation, Kemper Technology Services, Inc., LGA-2, Inc., LGA-3, Inc., LGA-17, Inc., Lou Jones & Associates, Nereus Holdings, Inc., Point & Quote Insurance Services, Inc., Specialty Surplus Insurance Company, Universal Bonding Holding Company, and Universal Bonding Insurance Company ("UBIC").

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

NOTES TO FINANCIAL STATEMENTS

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. As a mutual insurance company, the Company has no stockholders and no parent company. The Company and affiliates are disclosed in the organizational chart of Schedule Y. Investments in affiliates or subsidiaries are disclosed in Schedule D under the caption "Parents, Subsidiaries and Affiliates." Joint ventures with 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. The Company's relationship with AMM, an associated mutual insurance company that shares with the Company common management and directors, is further described in Note 26.

Significant Affiliate and Former Affiliate Transactions in 2006 and 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 prepaid asset was non-admitted.

Broadspire Transaction and Claim Handling

In July 2003, the Company sold its NATLSCO, Inc. subsidiary and related claim service operations (together subsequently renamed "Broadspire"). 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 that was carried at $17.9 million at December 31, 2004. The Company's surplus at December 31, 2005 reflected a benefit of $5.3 million due to the ruling. Broadspire in 2005 paid $19.0 million in cash and asserted an offset right to the remaining $4.2 million. The Company disputed 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. Broadspire subsequently prevailed in an arbitration dealing with the claim upon which Broadspire had asserted the offset right, which resulted in a $3.7 million adverse impact to the Company's surplus in 2006.

The 2003 sales agreement with Broadspire also provided for certain contingent consideration ("earn-out") based on the revenue and net income of the sold business for a four-year period beginning January 1, 2004 (the "Earn-out Period"). The sales agreement required the acceleration and payment of remaining earn-out if Broadspire sold assets of NATLSCO during the Earn-out Period. In 2006, Broadspire paid the Company $2.9 million for the 2004 earn-out and $293 thousand for the 2005 earn-out. In another arbitration proceeding, the Company is disputing the accuracy of the amounts paid by Broadspire for the earn-out in both years. In addition, in a series of three transactions between December 2004 and November 2006, Broadspire disposed of NATLSCO and certain of its assets. In 2006, Broadspire paid $3.5 million as a buy-out of the remaining earn-out (due to the asset dispositions) that Broadspire admits is due under the sales agreement. The Company is disputing the accuracy of Broadspire's calculations. The Company has recorded the payments received to date (benefiting the Company's surplus and liquidity to that extent in 2006). In accordance with the Manual, the Company is not carrying an admitted asset for any future recoveries from Broadspire.

Also in connection with the 2003 transaction, the Company entered into a long-term claim administration agreement with Broadspire for the servicing of most of the Company's existing workers' compensation, general liability, and employer liability claims. The Company paid 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 a prescribed accounting practice more fully described in Note 1, the Company reflects as an admitted asset the remaining prepaid amount for claim handling services; that amount has declined to approximately $23 million as of December 31, 2006 and $33 million as of December 31, 2005.

NOTES TO FINANCIAL STATEMENTS

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 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. In 2006, GE Re was acquired by the Swiss Reinsurance Company and its affiliates ("Swiss Re"). The Company's reinsurance recoverables from GE Re at December 31, 2005 totaled $238 million and from Swiss Re at December 31, 2006 (now including those owed by GE Re) totaled $277 million (see Note 23).

UBIC Merger

During 2006, UBIC, then the Company's indirectly wholly owned, New Jersey-domiciled, subsidiary, merged into one of the Company's wholly owned Illinois-domiciled subsidiaries, Kemper Casualty Insurance Company ("KCIC"). KCIC was the surviving entity in the merger. Since 2002, UBIC was carried at no value on the books of the Company. The merger and related transactions resulted in a surplus benefit to the Company of approximately $18.4 million in 2006. This benefit is primarily due to the related cancellation of a $12.3 million intercompany liability previously recorded as owed by the Company to UBIC. Surplus notes originally issued by UBIC to the Company in 2002 and 2003 were also cancelled in 2006 without any impact to the surplus of the Company. As a result of the merger itself, KCIC's (and the Company's) surplus increased by approximately $6.1 million (part of the $18.4 million) reflecting UBIC's net assets and a slight benefit from the application of accounting practices prescribed or permitted by the Division of Insurance for the Company and its Illinois-domiciled subsidiaries.

Renewal Rights Transaction with St. Paul Travelers

In connection with the purchase in 2003 by St. Paul Fire and Marine Insurance Company ("St. Paul") from the Company of renewal rights to certain of its middle market property-casualty business, St. Paul paid to the Company approximately $0.9 million in 2006 and $16.7 million in 2005. As part of the consideration for the purchase, St. Paul agreed to pay to the Company an override payment equal to 9% of the premium generated through May 2004 on the middle market business. The Company is currently disputing the accuracy of St. Paul's calculation of the override payments made by St. Paul. In accordance with the Manual, the Company is not carrying an admitted asset for any future override payments from St. Paul.

Kemper Auto & Home: Renewal Rights and Cut-Through

Following the sale in 2002 of the Company's and its affiliates' U.S. personal lines business to Unitrin, Inc. ("Unitrin") and its subsidiaries including Trinity Universal Insurance Company ("Trinity"), Unitrin operates this business under the name Kemper Auto & Home. Unitrin has a 100-year license to use the Kemper name in the acquired personal lines businesses. Unitrin did not acquire then in-force or previously issued policies nor renewal rights to policies issued in Alaska, Michigan, Delaware, or Arkansas or to policies produced by independent agents whose authority to write new business had been terminated prior to April 19, 2002. Pursuant to the 2002 sale agreement, Unitrin continues to monitor and service the Company's run-off of its retained personal lines policies. Through early 2005, the Company and certain of its affiliates fronted for Trinity, at Trinity's expense, personal lines policies in states where Trinity (or an affiliate) was seeking licenses and making form and rate filings necessary for the issuance of policies in place of renewals of policies originally issued by the Company or its affiliates. As of December 31, 2006 and 2005, respectively, approximately $26 million and $49 million of the Company's gross liabilities were from fronted policies that are 100% reinsured by (ceded to) Unitrin. Not only are these reinsured policies fully administered (including claims handled) by Unitrin

NOTES TO FINANCIAL STATEMENTS

subsidiaries, such policies are covered by a cut-through provision allowing the insureds to seek direct recourse to a Unitrin subsidiary in the event of any insolvency of the Company.

Berkshire Cut-Through; Bond Facility; Claims Handling

In early 2003, shortly after the Kemper Insurance Companies were downgraded to below an "A" level, National Indemnity Company ("NICO"), a member of the "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.

As an agreed condition for NICO to provide the cut-through agreements, the Company and its affiliates immediately provided collateral available to NICO if and to the extent NICO makes any payments under any cut-through agreements. The collateral includes offset rights granted to NICO for reinsurance proceeds payable by either NICO or its affiliate, National Fire & Marine Insurance Company ("National Fire"), to the Company or its affiliates; a collateral trust initially in an amount of $251.1 million as of the end of June 2003, which amount was subject to quarterly reductions by payments of claims (losses and LAE) and mid-term cancellations of policies (the trust amount decreased to $22.4 million at December 31, 2005 and to zero in the third quarter of 2006); and investments of $257.3 million in Berkshire corporate obligations (Schedule D admitted assets) which the Company has pledged as security to Berkshire. The Berkshire corporate obligations were reduced to $246.9 million by year-end 2006, with cash in the amount of the reduction being released to the Company in accordance with existing agreements. The investments were further reduced in early 2007, by approximately $20.2 million, due to mandatory redemption payments by Berkshire to the Company. If NICO makes no payments under the cut-through agreements, then of the pledged investments, $100.0 million matures in March 2025, while the remaining amount is subject to mandatory redemption annually provided the Company is paying claims on policies covered by the cut-through agreements and NICO is not required to pay any amounts under any cut-through agreement. Because the Berkshire corporate obligations have been pledged as collateral to Berkshire, the Company does not have the intent or, in the absence of a voluntary agreement from Berkshire, the ability to dispose of the investments prior to maturity or redemption. At December 31, 2006 and 2005, respectively, $80.6 million and $154.2 million of the Company's gross policy liabilities were 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 $151.7 million at December 31, 2006. Most of that amount also serves as additional security for any payments that may be made under any NICO cut-through agreements.)

NICO also separately provides, for initial and annual fees, an appeals bond facility that the Company and its affiliates use primarily in connection with litigated claims. The Company fully collateralizes the appeal bonds with the pledge of an investment in a Berkshire corporate obligation (Schedule D admitted asset) purchased from Berkshire. At December 31, 2006, the Company has pledged $26.2 million of its assets as collateral for this purpose.

In connection with a now commuted reinsurance arrangement in 2001, the Company entered into a long-term claim administration agreement with National Fire for the servicing of 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 a prescribed accounting practice more fully described in Note 1, the Company reflects as an admitted asset the remaining prepaid amount for claim handling services; that amount has declined to approximately $9.4 million at December 31, 2006 and $12.2 million as of December 31, 2005.

SeaBright Insurance Company

Following the 2003 sale by the Company of 100% of the capital stock of Kemper Employers Insurance Company ("KEIC") to SeaBright Insurance Holdings, Inc., the purchaser renamed KEIC as SeaBright Insurance Company. 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. The Company's assets in that collateral trust totaled approximately $5.2 million and $4.9 million at December 31, 2006 and 2005, respectively; the increase in 2006 was due to investment income on the trust assets. Also in connection with the 2003 sale, the Company had established for the benefit of the purchaser an escrow in the amount of $4.0 million. In 2005, $3.8 million of the escrow was released back to the Company, and the remainder was released in 2006. SeaBright also provides for agreed fees certain claim handling services with respect to approximately 700 claims

NOTES TO FINANCIAL STATEMENTS

(accounting for approximately $30.0 million of net liabilities at December 31, 2006) under policies issued by the Company's Eagle insurance operations prior to the 2003 sale of KEIC.

International Operations

During the last two years, the Company has had seven international insurance operations in six countries. Three of the seven, specifically the Company's Japanese branch and its Bermuda and Singapore subsidiaries, were voluntarily liquidated in 2005 and 2006, respectively. The Company's four continuing international operations consist of the following: two branches in Canada, one being a branch of the Company and the other a branch of one of the Company's wholly owned, Illinois-domiciled, subsidiaries, AMICO; and two insurance company subsidiaries, one in each of Belgium and Australia. These four operations accounted for approximately $38.7 million, or approximately 22.2%, of the Company's surplus at December 31, 2006. International operations had accounted for approximately $50.0 million, or 29.7%, of the Company's surplus at December 31, 2005. The decline in surplus located overseas primarily was due to the repatriation of cash from certain of the overseas operations (a liquidity benefit as surplus was moved to the U.S.). Repatriations totaled approximately $8.3 million in 2006 and $12.5 million in 2005.

At December 31, 2006 and 2005, respectively, the Company's Canadian branch accounted for $30.1 million and $37.0 million of the Company's surplus. The branch reported a net loss of $4.1 million in 2006, primarily due to additions to loss reserves on a single case from a policy issued in 2002, and net income of $2.8 million in 2005, primarily due to a favorable settlement of liabilities from an assumption reinsurance transaction in 2001 when the branch sold its personal lines business. Approximately $37.5 million of the $48.0 million of assets of the Company's Canadian branch at December 31, 2006 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. The regulators are currently approving payments of the branch's expenses and liabilities from vested trust assets, and starting in the fourth quarter of 2006, the Canadian regulators have conditionally agreed to release approximately $2.2 million per quarter through 2007. The $2.2 million released in 2006 was then repatriated to the Company's unencumbered U.S. accounts. In 2005, using vested assets, the Company favorably settled a $21 million liability it owed to the purchaser of its Canadian personal lines business sold in 2001.

At December 31, 2006 and 2005, respectively, AMICO's Canadian branch accounted for $1.1 million and $6.0 million of the Company's surplus. The AMICO branch reported net income of $0.5 million in 2006 and a net loss of $0.5 million in 2005. In 2006, the AMICO branch in Canada completed an assumption reinsurance transaction and repatriated to the U.S. approximately $4.8 million. The Company anticipates that AMICO's Canadian branch will be fully liquidated in 2007, which will allow for the repatriation of the remaining $1.2 million. At year-end 2005, in connection with the then pending assumption reinsurance transaction, the Company separately commuted certain non-Canadian reinsurance contracts, resulting in a surplus gain to the Company of $4.6 million at a liquidity cost of $4.0 million.

At December 31, 2006 and 2005, respectively, the Company's Belgium subsidiary, Kemper, S.A. (Societe Anonyme), accounted for $4.7 million and $3.9 of the Company's surplus, and KSA reported net income of $0.2 million in 2006 and $0.1 million in 2005.

At December 31, 2006 and 2005, respectively, the Company's Australian subsidiary, Kemper Insurance Company Limited ("KICL"), accounted for $2.8 million and $2.6 of the Company's surplus, and KICL reported net income of $18 thousand in 2006 and net income of $0.2 million in 2005.

The Company is exploring reinsurance and/or sale alternatives for its Belgium and Australian subsidiaries; however, the Company has not entered into any definitive agreements with respect to divesting these subsidiaries. The Company has guaranteed the obligations under policies issued on or after January 1, 2002 by KSA, and under most policies issued by KICL. 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.

In 2005, the Company completed the liquidation of its Japanese branch with no surplus impact. In the liquidation, the Company repatriated from its Japanese branch approximately $2.2 million.

In 2006, the Company completed the liquidation of its Singapore subsidiary with no surplus impact. The Company received from its Singapore subsidiary a final liquidating cash dividend of approximately $0.5 million in 2006. This followed dividends in 2005 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 the cash increased liquidity in the U.S.

Also in 2006, the Company completed the liquidation of its Bermuda subsidiary, the Seven Continents Insurance Company. The liquidation had no impact on surplus in 2006. In 2005, this subsidiary had 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 through 2006. The Company received from this 2005 distribution net reinsurance recoverables valued at approximately $500 thousand at December 31,

NOTES TO FINANCIAL STATEMENTS

2005 and cash of $2.4 million in 2005. The distribution did not impact the Company's surplus in 2005, and the Company collected in cash the distributed reinsurance recoverables in 2006.

Capital Contributions

In 2006, following approval by the Division of Insurance, the Company contributed certain real-estate related promissory notes to AMICO, which in turn contributed them to its wholly owned subsidiary, AMICO Realty Corporation, which holds other notes and related real estate investments. The notes had been valued at zero by the Company at December 31, 2006 and 2005, and therefore the transfer to AMICO Realty resulted in no change to either the value of the assets carried on the Company balance sheet or the Company's surplus. The Company made no capital contributions to subsidiaries during 2005.

Return of Capital and Income Dividends

Dividend distributions from the Company's insurance subsidiaries to the Company are restricted by various state insurance laws. In Illinois, where most of the Company's subsidiaries are domiciled, if such dividend, together with other distributions during the 12 preceding months would exceed the greater of (a) 10% of the insurer's statutory surplus as regards policyholders as of the preceding December 31, or (b) the statutorily adjusted net income for the preceding calendar year, then such proposed dividend must be reported to the Director of the Division of Insurance (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 Director, 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.

The Company recorded return of capital and income dividends from the following subsidiaries during 2006 and 2005:

		2006		2005
		(in thousands)		
SSIC[1]	$	10,000		0
AMICO[2]		5,009		0
Kemper International Corporation		536		7,776
American Underwriting Corporation		432		0
LGA-17, Inc.		140		0
Total	$	16,117		7,776

[1]SSIC's Board of Directors approved a $3,286 thousand return of capital dividend and a $6,714 thousand income dividend paid December 29, 2006, to its sole shareholder, LMC.

[2]AMICO's Board of Directors approved a $4,793 thousand return of capital dividend and a $36 thousand income dividend paid December 29, 2006, to its sole shareholder, LMC.

Intercompany Transactions

The Company reported the following amounts due from (to) affiliates at December 31, 2006 and 2005:

Affiliate		December 31, 2006		December 31, 2005
AMICO	$	(636,017)		1,314,519
AMM		74,329		622,843
SSIC		3,698,071		(2,247,117)
KCIC		70,877		(12,880,573)
Kemper Lloyds Insurance Company		2,737		12,726
All other affiliates		0		(14,059)
Total payable to affiliates	$	3,209,997		(13,191,661)

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

Impairment Write-downs

The Company did not have any impairment writedowns on investments in subsidiaries during 2006.

The Company recognized an impairment writedown of $6.4 million as a realized capital loss for its investment in Kemper International Corporation during 2005. The impairment was primarily due to dividends received by the Company that reduced the Company's investment in the international operations.

11. DEBT

None.

NOTES TO FINANCIAL STATEMENTS

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

A. Employee Retirement Plans

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

B. Deferred Compensation Plans

Profit Sharing Plan

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

Retention Plans

The Company's workforce decreased to 274 employees at December 31, 2006, from 284 employees at December 31, 2005 and 340 at December 31, 2004. To help stabilize the workforce, the Company maintains a retention plan providing for scheduled quarterly payments. The retention payments for 2006 and 2005 totaled $4.7 million and $5.3 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.

As an additional retention plan, the Company maintains an employee severance program which provides a maximum benefit of up to one year of salary depending on the level of an employee and service time with the Company. Severance liabilities are not reflected on the Company's balance sheet until a decision is reached that a specific employee or group of employees is to be terminated without cause. Severance payments in 2006 and 2005 totaled $0.8 million and $2.4 million, respectively, and severance liabilities recorded at December 31, 2006 and 2005 totaled $0.5 million and $0.4 million, respectively. In 2006, with the approval of the Division of Insurance, the Company made a one-time deposit of $4.75 million into a long-term retention trust to secure severance obligations.

Incentive Plans

The Company has maintained since 2004 an annual incentive plan linked to successfully achieving or exceeding certain targets as anticipated from time to time in the Company's run-off plan (the "Short-Term Plan"). The Short-Term Plan payments totaled $3.6 million in 2006 and $2.7 million in 2005. In addition to the Short-Term Plan, the Company, with final approval from the Division in 2006, established a long-term incentive plan linked to the successful maintenance of the commercial run-off as anticipated in the Company's run-off plan. At December 31, 2006, the Company has accrued approximately $6.2 million under the incentive plans for payments to be made in 2007.

Restricted Stock, Other Deferred Compensation, and Stock Option Plans

The Company carried deferred compensation liabilities of approximately $1.3 million at December 31, 2006 and $1.2 million at December 31, 2005.

C. Postretirement Benefits

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

NOTES TO FINANCIAL STATEMENTS

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

At December 31, 2006, unassigned surplus was reduced by nonadmitted asset values primarily related to deferred taxes and other assets of $765,830,535 and a reserve for unrealized foreign exchange losses of $4,993,035.

The Company has the following surplus notes issued and outstanding at December 31, 2006:

			Amounts in thousands				
Interest Rate/ Description	**Issue Date**	**Maturity Date**	**Par or Face Value**	**Carrying Value of Surplus Notes**	**Interest Paid 2005-2006**	**Total Interest Paid**	**Accrued Interest 12/31/06**
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 $1.6 million at December 31, 2006 and 2005.

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, to 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 2006 and 2005 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, 2006 is $248.7 million.

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 approximately $388 million related to structured settlements annuities. (See Note 27.)

NOTES TO FINANCIAL STATEMENTS

Securities on Deposit/Encumbered Assets

Approximately $909 million of the Company's cash and invested assets at December 31, 2006 are encumbered by being on deposit or held in trust or escrow arrangements, compared with $1.1 billion one year earlier, as shown in the following table:

(in millions)	December 31, 2006	December 31, 2005
Special Deposits/Encumbered Assets:		
California State Deposit	$ 430	$ 538
Other State Deposits	130	155
NICO Cut-Through Collateral	247	269
NICO Appeal Bond Collateral	26	43
Canada Deposits	45	42
All Other	31	26
	909	1,073
Unencumbered Assets:		
Cash, Bonds and Stocks	704	881
Receivables for Securities	0	32
Other Assets	33	34
	737	947
Cash and Invested Assets	$1,646	$2,020

The majority of the encumbrances are deposits with state insurance departments, with California accounting for the majority of that amount, as shown in the preceding table. The Company received releases of encumbered assets from states totaling approximately $133 million and $303 million during 2006 and 2005, respectively, including approximately $108 million and $285 million, respectively, from California. Releases reflect lower levels of liabilities of the Company that the state deposits have historically secured. There can be no assurance that there will be additional releases.

Where required to post court bonds, including supersedeas or appeal bonds, or when using surety bonds to satisfy state deposit requirements, the Company, due to its financial condition, has had to post cash or other security totaling 100% of the bond. At December 31, 2006 and 2005, the Company had pledged invested and other assets of $27.5 million and $44.1 million, respectively, for such bonds, most of which are issued by NICO. (See Note 10.)

Approximately $247 million of the Company's invested assets at December 31, 2006 provide collateral for Berkshire affiliates related to the NICO cut-through agreements. (See Note 10.) This amount reflects a $22.4 million reduction from a year earlier. Of the cut-through encumbered assets at December 31, 2006, $146.9 million are subject to release to the Company annually as claim payments are made on policies to which the NICO cut-through agreements are attached so long as NICO is not required to pay any amounts on Kemper policies that have the benefit of cut-through agreements.

Approximately $5.2 million and $4.9 million of the Company's invested assets at December 31, 2006 and 2005, respectively, are in a collateral trust for the benefit of SeaBright Insurance Company related to a reinsurance agreement. (See Note 10.)

The Company is contingently liable to provide up to an estimated additional $27.7 million in collateral due to ratings triggers in reinsurance agreements where it is a reinsurer. Of this amount,

NOTES TO FINANCIAL STATEMENTS

$4.7 million has been funded with assets of an unrelated third party, Alea Bermuda Ltd. ("Alea"), for business where the Company from late 1999 to year-end 2001 fronted assumed reinsurance contracts in the U.S. for Alea. Alea's insurance ratings fell to below the "A" level in 2005, and Alea and its affiliates subsequently went into run-off status and have been undergoing related operational changes. Alea's reinsurance obligations to the Company for the fronted liabilities are secured by collateral trust assets of Alea in the amount of $137.9 million at December 31, 2006. The amount of trust assets was reduced in early 2007 in accordance with existing agreements by $11.3 million, reflecting reductions in liabilities retroceded to Alea. Alea also has handled claims on behalf of the Company since 1999 on both the fronted liabilities and, at December 31, 2006, $75.6 million of other assumed reinsurance liabilities written by the Company from 1997 through 1999. The Company is dependent on Alea for the claim handling and its related accounting.

In addition to the encumbrances applicable to the Company's cash and invested assets which are reflected in the preceding table and in Schedule E, Part 3, Special Deposits, the Company has certain reinsurance related assets which have been pledged or otherwise encumbered. Such encumbered assets include funds held by or deposited with reinsured companies ($12.7 million, as shown on line 14.2 on the Company's balance sheet at December 31, 2006), 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 ($4.6 million at December 31, 2006). In addition, one of the Company's wholly owned subsidiaries, SSIC, which was a Markel subsidiary until January 2000, has granted to a Markel entity a security interest in SSIC's reinsurance recoverables related to claims from before 2000 that Markel is responsible for handling and paying; SSIC's related encumbered reinsurance assets totaled $126.7 million at December 31, 2006.

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 2006 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, 2006. As of December 31, 2006 and 2005, respectively, the Company accrued $3.2 million and $4.5 million for such guaranty fund assessments. The Company also has established a liability for premium and loss based assessments of approximately $39 million as of December 31, 2006, compared with approximately $43 million as of December 31, 2005.

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. 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.

NOTES TO FINANCIAL STATEMENTS

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 (and for 2006 excluding the benefit of prescribed accounting practices), the Company's level of 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 has discretion to allow the continued run-off.

Having entered into voluntary run-off in the first half of 2003, the Company has been operating under guidance provided within certain agreed to Corrective Orders with the 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. As required by the Division of Insurance, the Company is operating under a confidential RBC plan (the "run-off plan") to address its RBC level. The run-off plan is designed to help the Company meet its goal of resolving, to the maximum extent possible, all valid policyholder claims. The Company updates the run-off plan based on current information from time to time. Details of the plan are confidential pursuant to the state's risk-based capital statute.

Risks and uncertainties involved in implementing the run-off plan include the needs to achieve significant policy buybacks and novations (the volume of which has declined in each of the last two years as overall liabilities also declined); 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 run-off 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 four years, the Division of Insurance retains the discretion at any time to seek to place the Company in a formal insolvency proceeding (conservatorship or receivership, rehabilitation or liquidation). The risk of a proceeding would be 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.

The Company has also entered into consent agreements with certain other states under which the Company agreed to cease writing business in those jurisdictions. In addition, the Company agreed to its license being suspended in Florida in 2004 and Tennessee in 2005, with the Company permitted to maintain its licenses but not permitted to write any new business. The Company has appealed its 2006 license suspension in the state of North Carolina as not being in the best interests of the Company's policyholders or claimants.

Surplus Considerations

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 $6.3 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 book yield on its investment portfolio in 2007 will increase over the book yields in the prior two years and will approach the 4.2% rate that the Company uses to discount its loss and LAE reserves pursuant to an accounting practice prescribed by the Division of Insurance (See Note 1).

NOTES TO FINANCIAL STATEMENTS

In each of 2006 and 2005, the Company successfully executed surplus-enhancing transactions and operational improvements that together produced benefits to surplus that covered substantially all the reduction in surplus caused by expenses exceeding revenues and by additions to loss and LAE reserves during those years. Although involving use of liquidity (see *Liquidity Considerations* below), policy buybacks and other settlements by the Company of liabilities for less than carried reserves remain a significant focus of the Company's management and its run-off plan at this time.

During 2006 and 2005, respectively, the Company added approximately $73.2 million and $90.0 million to its net discounted reserves. The reserve increase in 2006 primarily reflected adverse development in commercial auto and liability lines. Included in the $73.2 million above is a $31.1 million reduction in the overall loss and LAE reserve discount provision due to faster than projected payments of losses during the year, in part reflecting certain policy buybacks, novations, and claim settlements.

In 2006 and 2005, the Company's net income and surplus benefited from the net benefits of $12.6 million and $55.0 million, respectively, as collections of previously non-admitted premiums in collection and other policy related assets exceeded write-offs and writedowns of similar admitted assets.

At December 31, 2006, the Company's balance sheet shows that its assets exceed its liabilities by $173.6 million, a $5.3 million increase in surplus from the level reported one year earlier. There can be no assurance that success of the run-off 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 surplus at year ends 2006 and 2005 reflected certain one-time events, including a prior year tax refund in 2006 (see Note 9) and transactions with former affiliates in 2005 (see Note 10). If the Company is unable to maintain adequate levels of statutory surplus, which under the run-off plan requires the continuous generation of surplus from transactions to offset the monthly surplus diminution from operating expenses and loss and LAE 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 2006, policy buybacks, novations, and assumed reinsurance commutations collectively added approximately $23 million to the Company's surplus, for a net benefit to liquidity of approximately $48 million. In 2005, they added approximately $96 million to surplus for a benefit to liquidity of approximately $2 million. Buybacks, novations, and assumed reinsurance commutations resulted in the Company's gross and net loss and LAE reserves declining by approximately $155 million and approximately $9 million, respectively, in 2006 and by approximately $306 million and approximately $136 million, respectively, in 2005. 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 and LAE reserves were $3.0 billion and $1.6 billion, respectively, at December 31, 2006, compared with $4.1 billion and $2.0 billion, respectively, at December 31, 2005.

Liquidity Considerations

As a run-off company, the Company's cash outflows exceed its cash inflows. There are a number of factors that could adversely affect the Company's liquidity position and its adequacy. Accelerated claim payments or imposition of requirements to secure future maturing obligations by court order or otherwise, deterioration of reinsurance collections, increases in operating expenses, and other unanticipated strains on liquidity could cause the Company to have insufficient liquid and unencumbered assets to continue to pay obligations as they mature. As liquidity declines, there can be no assurance that formal proceedings would not be initiated by the Division of Insurance significantly before the Company's projected liquidity would reach zero. The Company's reported approximately $737 million of unencumbered assets at December 31, 2006 shown in the table under ***Securities on Deposit/Encumbered Assets*** above in this Note 14 includes approximately $159 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

NOTES TO FINANCIAL STATEMENTS

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.

Also to supplement liquidity, the Company during 2006 merged or dissolved three insurance company subsidiaries and during 2005 dissolved 20 other non-insurance company subsidiaries (see Note 10). The liquidity benefits from these actions include minor reductions in expenses from not needing to maintain corporate entities and, following regulatory approvals, allowed certain dividends from subsidiaries to the Company.

Prompt collection of reinsurance recoverables is a primary driver of the Company's liquidity at all times. Reinsurance provided approximately $800 million of liquidity to the Kemper Insurance Companies during 2006 and approximately $900 million during 2005. The Company's gross reinsurance recoverables totaled $1.6 billion at December 31, 2006, down from $2.3 billion at December 31, 2005.

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

Other

As described in Note 13, the Company issued $700.0 million in aggregate principal amount of surplus notes in 1996 and 1997. The Company is required to seek the approval of the Director to make each and any semi-annual payments of interest on the surplus notes. Beginning in 2003, the Director has denied the Company's requests for payment of interest on the surplus notes. Following the non-payment of interest in 2003, several lawsuits were filed in the Circuit Court of Cook County, Illinois by certain holders of surplus notes aggregating approximately $368 million and naming, as defendants, the Company, various directors or former directors of the Company, and Kemper Commercial Insurance Company, a now dissolved subsidiary of the Company. One case was voluntarily dismissed by the plaintiff, and the other two were consolidated in 2004. The Company was not served with the consolidated amended complaint. This complaint alleged that the Company breached the agreements relating to the surplus notes by adopting a divestiture plan to sell all or substantially all of the Company's assets and ongoing businesses without requiring the acquiring entities to assume the Company's surplus notes or obtaining the consent of a majority of the holders of the surplus notes. The complaint further alleged that the directors breached their fiduciary duties and committed corporate waste, and that the Company and Kemper Commercial Insurance Company engaged in a fraudulent conveyance. The complaint, among other things, sought a declaratory judgment of the parties' rights, an injunction against further asset sales, and monetary damages. In May 2006, the Circuit Court entered a stipulation and order whereby the lawsuit was dismissed without prejudice with leave to reinstate no earlier than October 2008.

Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from other litigation, income tax, and other matters are not currently considered material in relation to established reserves, anticipated insurance and reinsurance recoverables, and the financial condition of the Company, but there can be no assurance that such matters will not become material due to future developments, including any changes with respect to the financial condition of the Company.

NOTES TO FINANCIAL STATEMENTS

15. **LEASES**

The Company leases office space and equipment under various non-cancelable operating lease agreements. Rental expense for 2006 and 2005 was $4,188,622 and $5,121,014, respectively.

At December 31, 2006, the total aggregate minimum rental payments on operating leases is $11,892,709, and future minimum rental payments for the next five years are as follow:

Year Ending December 31		Minimum Payments (in thousands)
2007		$ 4,346
2008		4,072
2009		2,860
2010		615
2011 and thereafter		0
		$11,893

Certain rental commitments have renewal options extending through the year 2010. 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, 2006, the Company's total incurred losses and LAE related to the September 11 events were as follows:

Gross losses and LAE incurred	$	220,037,979
Reinsurance losses and LAE ceded		(174,408,461)
Net losses and LAE incurred	$	45,629,518

The incurred losses are primarily attributable to workers compensation, commercial multiple peril, and other liability lines of business. As of December 31, 2006, the Company has recovered a total of $156.7 million from its reinsurers, against $195.6 million in total claim payments.

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.

NOTES TO FINANCIAL STATEMENTS

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 this Annual Statement.

22. EVENTS SUBSEQUENT

At December 31, 2006 and 2005, the Company owned certain Texas guaranty fund premium tax credits that previously had ceased to be carried on the Company's balance sheet after the Company had entered run-off status in 2003. In the first quarter of 2007, the Company and certain affiliates sold its off-balance-sheet premium tax credits in two sales transactions. Both transactions received regulatory approvals in both Texas and Illinois. Most of the credits were sold to two subsidiaries of Unitrin in February 2007. The Company also sold $369,626 of its credits to four affiliates, who collectively paid the Company in February 2007, as follows: AMM, $28,408; AMICO, $119,719; KCIC, $14,855; and Kemper Lloyds Insurance Company, $209,648. The sales together added approximately $4.6 million to the Company's 2007 net income, surplus, and liquidity.

NOTES TO FINANCIAL STATEMENTS

23. REINSURANCE

A. Unsecured Reinsurance Recoverables

The Company has unsecured aggregate recoverables from unaffiliated reinsurers for losses and LAE paid and unpaid including IBNR, and unearned premium that exceed 3% of the Company's policyholder surplus at December 31, 2006, 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.		$ 9,105
			8 Group Total		9,105
13-5124990	12	19380	American Home Assurance Co.		97
06-0384680	12	11452	Hartford Steam Boil Inspection & Insurance Co.		216
13-5540698	12	19429	Insurance Co. of the State of Pennsylvania		1,769
25-0687550	12	19445	National Union Fire Ins Co. of Pittsburgh		1,488
13-5616275	12	19453	Transatlantic Reinsurance Co.		14,543
			12 Group Total		18,113
13-2673100	31	22039	General Reinsurance Corp.		43,269
47-6021331	31	20079	National Fire & Marine Insurance Co.		107,925
13-1988169	31	34835	National Reinsurance Corp.		508
			31 Group Total		151,702
06-0383750	91	19682	Hartford Fire Insurance Co.		7,284
			91 Group Total		7,284
47-0574325	98	32603	Berkley Insurance Co.		24,207
53-0067060	98	21784	Firemen's Insurance Co. of Washington D.C.		613
41-1232071	98	31003	Tri State Insurance Co. of Minnesota		496
			98 Group Total		25,316
13-2781282	158	25070	Clearwater Ins Co.		17,639
23-2745904	158	10019	Clearwater Select Ins Co.		9,047
22-1964135	158	21105	North River Insurance Co.		2
47-0698507	158	23680	Odyssey America Reinsurance Co.		5,976
13-3306163	158	19160	Old Lyme Ins Co. of RI Inc.		(1,136)
			158 Group Total		31,528
48-0921045	181	39845	Employers Reinsurance Corp.		39,960
36-2667627	181	22969	GE Reinsurance Corp.		160,923
06-0839705	181	82627	Swiss Reinsurance Life & Health America Inc.		4,650
13-1675535	181	25364	Swiss Reinsurance America Corp.		111,975
13-1941868	181	34207	Westport Insurance Corp.		873
			181 Group Total		318,381
75-0620550	215	19887	Trinity Universal Insurance Co.		27,513
13-5460208	215	25909	Unitrin Preferred Ins Co.		1,343
			215 Group Total		28,856
36-2114545	218	20443	Continental Casualty Co.		14,799
36-3976913	218	10071	Encompass Insurance Co. of America		500
			218 Group Total		15,299

NOTES TO FINANCIAL STATEMENTS

FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER		AGGREGATE RECOVERABLE (000 omitted)
41-0451140	229	67105	Reliastar Life Insurance Co.		$ 66,760
			229 Group Total		66,760
13-4924125	361	10227	American Re-Insurance Co.		137,693
			361 Group Total		137,693
16-0366830	501	22314	RSUI Ind Co.		12,272
			501 Group Total		12,272
23-1740414	626	22705	Ace American Reinsurance Co.		292
95-2371728	626	22667	Ace American Insurance Co.		3,495
06-0237820	626	20699	Ace Property & Casualty Insurance Co.		4,924
23-0723970	626	22713	Insurance Co. of North America		12,010
13-5481330	626	21121	Westchester Fire Insurance Co.		11
			626 Group Total		20,732
13-3029255	749	39322	General Security National Insurance Co.		3,624
75-1444207	749	30058	SCOR Reinsurance Co.		22,772
			749 Group Total		26,396
22-2005057	1120	26921	Everest Reinsurance Co.		9,567
			1120 Group Total		9,567
04-1027270	1129	20613	American Employers Insurance Co.		315
13-2997499	1129	38776	Folksamerica Reinsurance Co.		9,679
			1129 Group Total		9,994
13-5339725	1314	18341	Insurance Corp. of NY		(8,328)
06-1117063	1314	34894	Trenwick America Reinsurance Corp.		44,451
			1314 Group Total		36,123
06-1022232	1325	24899	Alea North America Insurance Co.		6,097
51-0335732	1325	44776	Alea North American Specialty Insurance Co.		1,914
			1325 Group Total		8,011
06-1325038	3018	39136	Converium Reinsurance North America Inc.		118,258
			3018 Group Total		118,258
36-2999370	3548	36463	Discover Prop & Cas Ins Co.		22
43-6028696	3548	22217	Gulf Ins Co.		2,120
41-6009967	3548	24015	Northland Ins Co.		234
41-0406690	3548	24767	St. Paul Fire & Marine Ins Co.		10,064
06-0566050	3548	25658	Travelers Ind Co.		557
52-0515280	3548	25887	US Fidelity & Guaranty Co.		1,589
			3548 Group Total		14,586
AA-9995013			Associated Aviation Underwriters		53,769
AA-9995022			Excess and Cas Reins Assn.		7,826
AA-9991444			Texas Workers Compensation		15,795
41-1357750		10181	Workers Compensation Reinsurance Assn.		8,585
Total Aggregate Unsecured Reinsurance Recoverables in excess of 3% of the Company's Surplus					1,151,951

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
American Re-insurance Co.	$ 10,570,489	416,705	5,294,115	4,859,669
Converium Reins. North America Inc.	7,316,661	0	7,316,661	0
Reliastar Life Insurance Co.	6,411,402	6,411,402	0	0
Ace American Insurance/Cigna Insurance Co.	2,509,835	2,509,835	0	0
Front Range Insurance Co.	1,990,056	0	0	1,990,056
Insurance Co. of North America	1,473,633	1,473,633	0	0
Scor Reinsurance Co.	1,247,939	639,560	608,379	0
Pohjola Yhtyma Oyj (Pohola Grp Plc)	1,031,557	1,031,557	0	0
Employers Reinsurance Corp.	996,853	996,853	0	0
Continental Casualty Co.	665,422	665,422	0	0
Employers Insurance of Wausau A Mutual Co.	453,003	453,003	0	0
Swiss Reinsurance America Corp.	431,587	431,587	0	0
Argonaut Insurance Co.	329,260	329,260	0	0
Odyssey Reinsurance Corp.	298,185	298,185	0	0
Ace American Reinsurance Co. (FKA Cigna Reins. Co.)	292,083	292,083	0	0
National Casualty Co.	275,494	275,494	0	0
Partner Reinsurance New York	207,341	207,341	0	0
AXA Versicherung AG (Colonia Versicherung AG)	196,694	196,694	0	0
GE Reinsurance Co.	192,203	192,203	0	0
Excess Insurance Co. Ltd.	158,577	158,577	0	0
Great American Insurance Co.	124,750	124,750	0	0
General Reinsurance Corp.	77,370	77,370	0	0
Arch Reinsurance Co.	61,038	61,038	0	0
Travelers Indemnity Co.	55,389	55,389	0	0
Nationwide Mutual Insurance Co.	26,939	26,939	0	0
Transatlantic Reinsurance Co.	25,432	25,432	0	0
Canadian Reins. Co. (FKA Swiss Re Canada)	23,465	23,465	0	0
American Employers Insurance Co	4,443	4,443	0	0
Gothaer Versicherungsbank Vag	780	780	0	0
Total	$ 37,447,883	17,379,003	13,219,155	6,849,725

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, 2006, 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	$ 11,001,027	$ 718,071	$ 0	$ 0	$ 11,001,027	$ 718,071
(ii) All other	1,280,359	(3,110,789)	5,084,880	(2,593,179)	(3,804,521)	(517,611)
(iii) Total	$ 12,281,386	$(2,392,718)	$ 5,084,880	$(2,593,179)	$ 7,196,506	$ 200,460
(iv) Direct Unearned Premium Reserve: $2,266,686						

(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

The 2006 total for write-offs of reinsurance recoverables was immaterial, net of corresponding reductions of the provision for reinsurance.

E. Commutation of Ceded Reinsurance

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

NOTES TO FINANCIAL STATEMENTS

Reinsurer	FEIN Code	Amount	Reflected As
Alea Bermuda	AA-3190800	10,570,389	Losses Incurred
Converium Reins. North America, Inc.	06-1325038	(3,832,155)	Other
Equitas		(1,555,593)	Losses Incurred
Equitas		(3,635,437)	Other
Gerling Global Reinsurance Corp. of America	13-5009848	(2,821,288)	Losses Incurred
Gerling Global Reinsurance Corp. of America	13-5009848	(2,444,791)	Other
Gerling Global Reinsurance Corp. of America	13-5009848	282,042	Other
Patriot Insurance Co. Ltd.	AA-3190450	4,979,263	Losses Incurred
Patriot Insurance Co. Ltd.	AA-3190450	20,497,358	Other
Patriot Insurance Co. Ltd.	AA-3190450	(29,223,225)	Other
Trenwick America Reinsurance Corp.	06-1117063	3,283,549	Losses Incurred
Trenwick America Reinsurance Corp.	06-1117063	(6,595,415)	Other
Kennett Insurance Co. Ltd.	ZZ-0000002	304,572	Other
Kennett Insurance Co. Ltd.	ZZ-0000002	(87,855)	Other
American Re-Insurance Co.	13-4924125	2,831,370	Losses Incurred
General Reinsurance Corp.	13-2673100	4,591,151	Losses Incurred
Swiss Reins. America Corp.	13-1675535	4,591,151	Losses Incurred
Total		1,735,086	

F. **Retroactive Reinsurance**

None. (See Note 1.A.)

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, 2006, the Company had a total remaining deposit balance of $12,798,000 after taking into account interest income deposits and cash recoveries, as follows:

NOTES TO FINANCIAL STATEMENTS

(000's Omitted)	Contract #1	Contract #2	Contract #3	Total
Effective Date	11/1/2000	11/1/1999	7/1/2001	
Effective Yield	9.45%	18.13%	-12.09%	
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	2,614	2,614
Cash deposits	20,976	3,887	0	24,863
Interest income	618	240	(1,325)	(467)
Cash recoveries	(1,538)	(1,454)	(4)	(2,996)
Deposit balance	$ 42,158	2,673	1,285	46,116
2002:				
Initial payment	$ 0	0	2,823	2,823
Cash deposits	22,411	0	112	22,523
Interest income	1,047	290	(1,698)	(361)
Cash recoveries	(6,235)	(967)	(553)	(7,755)
Deposit balance	$ 59,381	1,996	1,969	63,346
2003:				
Initial payment	$ 0	0	0	0
Cash deposits	765	0	(95)	670
Interest income	7,342	114	0	7,456
Cash recoveries	(13,870)	(538)	(802)	(15,210)
Deposit balance	$ 53,618	1,572	1,072	56,262
2004:				
Initial payment	$ 0	0	0	0
Cash deposits	186	0	(2)	184
Interest income	1,974	0	0	1,974
Cash recoveries	(14,339)	0	(586)	(14,925)
Deposit balance	$ 41,439	1,572	484	43,495
2005:				
Initial payment	$ 0	0	0	0
Cash deposits	0	0	0	0
Interest income	4,322	415	1,124	5,861
Cash recoveries	(26,838)	(1,532)	(378)	(28,748)
Deposit balance	$ 18,923	455	1,230	20,608
2006:				
Initial payment	$ 0	0	0	0
Cash deposits	19	0	0	19
Interest income	6,802	267	0	7,070
Cash recoveries	(14,751)	(148)	0	(14,899)
Deposit balance	$ 10,994	574	1,230	12,798

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 $34,138,540 and $58,656,689 at December 31, 2006 and 2005, 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 LAE reserves) or for which the Company holds collateral and totaled $920,264 and $1,632,790 at December 31, 2006 and 2005, respectively.

25. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

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

		2006	2005
		(in thousands)	
Balance as of January 1, net of reinsurance recoverables of $2,081,041 in 2006 and $3,065,093 in 2005	$	2,009,562	2,759,032
Incurred related to:			
Current accident year		11,776	37,400
Prior accident years		130,616	112,606
Total incurred		142,392	150,006
Paid related to:			
Current accident year		(7,190)	22,383
Prior accident years		(569,131)	(921,859)
Total paid		(576,321)	(899,476)
Balance as of December 31, net of reinsurance recoverables of $1,460,753 in 2006 and $2,081,041 in 2005	$	1,575,633	2,009,562

The incurred loss and LAE related to prior accident years increased on a net basis by $130.6 million in 2006 and $112.6 million in 2005. The prior year development in 2006 is due to a reduction of $94.9 million in discount and $35.7 million in nominal adverse loss and LAE development. Of the $94.9 million discount reduction, $72 million was related to anticipated amortization of discount. The remaining reduction was related to a faster than expected payment of losses and policy buyback/commutation activity. The $35.7 million of nominal adverse development was related to deterioration in the commercial auto and liability lines of business offset by favorable development in workers' compensation, commercial multiple peril, personal lines and special property.

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, 2006 and 2005, the net reserves at each of AMICO and AMM are zero.

At the same time as the December 31, 2003 pooling agreement amendment, the Company assumed most of AMM's liabilities, agreed to perform for AMM all insurance policy-related obligations including handling and paying claims, and issued a Company policy to each holder of a policy ever issued by AMM, including any policy no longer in force but excluding any policy that is cut-through reinsured by Unitrin (see "*Kemper Auto & Home: Renewal Rights and Cut-Through*" in Note 10). The additional Company policy is substantively identical to the policy previously issued by AMM, although the Company policy is non-participating and non-voting with respect to the Company's corporate governance. The additional Company policy assures affected AMM policyholders that their claims will be treated equally with the claims of other Company policyholders not only in the event of a managed run-off of the Company and AMM (see Note 14) but also in the event of any insolvency proceedings with respect to the two companies. AMM remains liable for its policy liabilities in the event the Company does not comply with all the terms of the affected policies. The consideration paid by AMM to the Company at year-end 2003 in connection with the Company's issuance of policies to AMM policyholders included an off-balance-sheet asset for certain potential tax refunds due AMM, and in

NOTES TO FINANCIAL STATEMENTS

2006, the Company realized a benefit to its surplus and liquidity of $18.7 million when such refunds were paid.

27. STRUCTURED SETTLEMENTS

A. To settle certain insurance claim liabilities, the Company has purchased structured settlement annuities with the claimant as payee. The aggregate December 31, 2006 value of loss reserves eliminated by the purchase of these annuities was approximately $388 million. 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
First Colony Life Insurance Company	Lynchburg, VA	$41,359,055
Western National Life	Houston, TX	40,930,942
Safeco Life Insurance Company	Redmond, WA	33,803,125
Aurora National Life Assurance Company	Valencia, CA	32,304,952
Genworth Financial	Lynchburg, VA	20,502,394
Manufacturers Life Insurance Company (U.S.A.)	Boston, MA	18,707,166
Metropolitan Life Insurance Company	New York, NY	17,927,317
Aviva Life Insurance Company	Wilmington, DE	16,940,723
Fidelity Life Association	Oak Brook, IL	16,847,797
Federal Home Life Insurance Company	Lynchburg, VA	14,281,725
Security Benefit Life Insurance Company	Topeka, KS	13,903,893
Life Insurance Company of North America	Philadelphia, PA	11,115,580
AEGON USA Inc.	Louisville, KY	9,992,038
Midland National Life Insurance Company	Sioux Falls, SD	9,590,363
Presidential Life Insurance Company	Nyack, NY	9,361,633
Transamerica Life Insurance Company	Cedar Rapids, IA	8,971,159
Prudential Insurance Company of America	Newark, NJ	8,927,387
Allstate Life Insurance Company	Northbrook, IL	8,840,895
Chase Insurance Life and Annuity Company	Elgin, IL	6,702,288
Carrier	**Location**	**Amount**
Lincoln Financial Group	Greensboro, NC	4,851,975
William Penn Life Insurance Company of New York	Garden City, NY	3,984,005
Travelers Insurance Company	Hartford, CT	3,561,170
Pacific Life Insurance Company	Newport Beach, CA	2,619,307
Mutual of Omaha	Omaha, NE	2,498,181
AXA Equitable Life	New York, NY	2,379,675
New York Life Insurance Company	New York, NY	2,349,312
Monarch Life Insurance Company	Springfield, MA	2,150,902
AIG Life Insurance Company	Wilmington, DE	1,830,374
American General Life and Accident Insurance Company	Nashville, TN	1,758,046

28. HEALTH CARE RECEIVABLES

None.

29. PARTICIPATING POLICIES

None.

30. PREMIUM DEFICIENCY RESERVES

As of December 31, 2006, the Company had liabilities of $4,022,354 related to premium deficiency reserves. The Company used an offset of $2,671,769 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, 2006, the amount of reserve credits recorded for high deductibles on unpaid workers compensation claims was $623,587,124, and for non-workers compensation claims it was $75,989,520. 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 $34,475,110 at December 31, 2006.

NOTES TO FINANCIAL STATEMENTS

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

The Division of Insurance requires the Company to discount all its loss and LAE reserves, using a 4.2% interest rate assumption. The Company utilizes a cash-flow methodology approach in determining the amount of this discount which is based on the underlying payout patterns for each line of business and each accident year. The total discount as of December 31, 2006 is $531,885,916, of which $153,116,787 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	$153,117
Non-Tabular Discount	
Line of Business	
Homeowners/Farmowners	252
Private Passenger Auto Liability/Medical	1,815
Commercial Auto/Truck Liability/Medical	10,989
Workers' Compensation	233,222
Commercial Multi Peril	20,898
Medical Malpractice - occurrence	37
Medical Malpractice - claims-made	255
Special Liability	2,468
Other Liability - occurrence	50,285
Other Liability - claims-made	11,884
Special Property	(462)
Auto Physical Damage	(8)
Fidelity/Surety	1,928
Other (including Credit, A&H)	97
Reinsurance Nonproportional Assumed Liability	22,828
Products Liability - occurrence	22,282
Total	378,770
Grand Total	$531,887

*Includes loss and LAE.

NOTES TO FINANCIAL STATEMENTS

33. ASBESTOS/ENVIRONMENTAL RESERVES

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

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

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

Direct (000 omitted)	2002	2003	2004	2005	2006
Beginning reserves	$323,711	$331,368	$455,272	$316,063	$258,688
Incurred losses and LAE	24,647	152,688	(91,670)	(3,482)	(93,544)
Calendar year payments for					
Losses and LAE	(16,990)	(28,784)	(47,539)	(53,893)	(114,398)
Ending asbestos related loss reserves	$331,368	$455,272	$ 316,063	$258,688	$ 50,746

Assumed Reinsurance (000 omitted)	2002	2003	2004	2005	2006
Beginning reserves	$450,736	$445,552	$353,531	$281,546	$243,722
Incurred losses and LAE	30,583	(36,695)	(12,295)	11,650	108,658
Calendar year payments for					
Losses and LAE	(35,767)	(55,326)	(59,690)	(49,474)	(117,411)
Ending asbestos related loss reserves	$445,552	$353,531	$281,546	$243,722	$234,969

Net of Reinsurance (000 omitted)	2002	2003	2004	2005	2006
Beginning reserves	$393,594	$399,780	$ 453,025	$285,377	$227,875
Incurred losses and LAE	35,071	31,962	(78,749)	10,523	28,650
Calendar year payments for					
losses and LAE	(28,885)	21,283	(88,899)	(68,025)	(60,184)
Ending asbestos related loss reserves	$399,780	$453,025	$ 285,377	$227,875	$196,341

The prior years assumed and net asbestos exposures have been adjusted for claims that previously had not been identified as asbestos.

The total asbestos related loss reserves at December 31, 2006 include IBNR reserves in the amount of $9,962,487 direct, $82,665,405 assumed, and $56,345,416 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, 2006 also include LAE in the amount of $32,016,941 direct, $109,486,652 assumed, and $118,274,627 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, 2006 is $40,160,680 direct, $0 assumed, and $40,160,680 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)	2002	2003	2004	2005	2006
Beginning reserves	$ 55,110	$ 19,353	$ 17,499	$ 14,958	$ 17,023
Incurred losses and LAE	(32,401)	780	24,692	9,759	5,299
Calendar year payments for					
Losses and LAE	(3,356)	(2,634)	(27,233)	(7,694)	(11,625)
Ending environmental related loss reserves	$ 19,353	$ 17,499	$ 14,958	$ 17,023	$ 10,697

Assumed Reinsurance (000 omitted)	2002	2003	2004	2005	2006
Beginning reserves	$ 50,378	$ 135,966	$ 129,512	$ 88,934	$ 77,424
Incurred losses and LAE	86,952	(3,286)	(20,713)	682	82
Calendar year payments for					
losses and LAE	(1,364)	(3,168)	(19,865)	(12,192)	(11,480)
Ending environmental related loss reserves	$135,966	$ 129,512	$ 88,934	$ 77,424	$ 66,026

Net of Reinsurance (000 omitted)	2002	2003	2004	2005	2006
Beginning reserves	$ 69,188	$ 104,946	$125,862	$ 88,310	$ 74,371
Incurred losses and LAE	29,244	(3,068)	(6,290)	(3,203)	10,721
Calendar year payments for					
losses and LAE	6,514	23,984	(31,262)	(10,736)	(21,718)
Ending environmental related loss Reserves	$ 104,946	$ 125,862	$ 88,310	$ 74,371	$ 63,374

The total environmental related loss reserves at December 31, 2006 include IBNR reserves in the amount of $235,972 direct, $4,715,440 assumed, and $2,914,152 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, 2006 also include LAE in the amount of $6,507,403 direct, $29,951,953 assumed, and $33,714,224 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, 2006 is $5,772,631 direct, $0 assumed, and $5,772,631 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	454,888,479	27.793	454,888,479	27.633
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies		0.000		0.000
1.22 Issued by U.S. government sponsored agencies	47,527,009	2.904	47,527,009	2.887
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)	2,312,099	0.141	2,312,099	0.140
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	20,649,383	1.262	20,649,383	1.254
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations		0.000		0.000
1.43 Revenue and assessment obligations	31,932,287	1.951	31,932,287	1.940
1.44 Industrial development and similar obligations		0.000		0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	12,844	0.001	12,844	0.001
1.512 Issued or guaranteed by FNMA and FHLMC	17,260,971	1.055	17,260,971	1.048
1.513 All other	0	0.000	0	0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	80,922,905	4.944	80,922,905	4.916
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521		0.000		0.000
1.523 All other	66,159,171	4.042	66,159,171	4.019
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	648,374,093	39.614	648,374,093	39.386
2.2 Unaffiliated foreign securities	25,164,472	1.537	25,164,472	1.529
2.3 Affiliated securities		0.000		0.000
3. Equity interests:				
3.1 Investments in mutual funds		0.000		0.000
3.2 Preferred stocks:				
3.21 Affiliated		0.000		0.000
3.22 Unaffiliated		0.000		0.000
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated	0	0.000	0	0.000
3.32 Unaffiliated	90,181	0.006	90,181	0.005
3.4 Other equity securities:				
3.41 Affiliated	76,055,977	4.647	85,535,429	5.196
3.42 Unaffiliated	2,166,375	0.132	2,166,375	0.132
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated	27,666,041	1.690	27,666,041	1.681
3.52 Unaffiliated	392,342	0.024	392,342	0.024
4. Mortgage loans:				
4.1 Construction and land development		0.000		0.000
4.2 Agricultural		0.000		0.000
4.3 Single family residential properties		0.000		0.000
4.4 Multifamily residential properties		0.000		0.000
4.5 Commercial loans		0.000		0.000
4.6 Mezzanine real estate loans		0.000		0.000
5. Real estate investments:				
5.1 Property occupied by the company		0.000	0	0.000
5.2 Property held for the production of income (including $ .... of property acquired in satisfaction of debt)		0.000	0	0.000
5.3 Property held for sale (including $ .... property acquired in satisfaction of debt)	4,172,747	0.255	4,172,747	0.253
6. Contract loans		0.000	0	0.000
7. Receivables for securities		0.000	0	0.000
8. Cash, cash equivalents and short-term investments	130,978,945	8.002	130,978,945	7.956
9. Other invested assets		0.000		0.000
10. Total invested assets	1,636,726,321	100.000	1,646,205,773	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 [X] No [ ]

2.2 If yes, date of change: 05/01/2006

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

3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2000

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? Yes [X] No [ ]

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

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 .... $ 7,241,272

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 [X] No [ ]

19.2 If yes, indicated any amounts receivable from parent included in the Page 2 amount: .... $ 3,209,996

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. .... $

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, L.L.C.	35 North LaSalle St., 35th Floor, 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	1,538,467,316	1,494,196,549	(44,270,767)
26.2 Preferred stocks	0	0	0
26.3 Totals	1,538,467,316	1,494,196,549	(44,270,767)

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? $ 87,086

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
State of New Jersey	44,276

29.1 Amount of payments for legal expenses, if any? $ 9,239,384

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	2,648,837

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	$ 0
2.2	Premium Denominator	$ 19,243,766	$ 21,300,321
2.3	Premium Ratio (2.1/2.2)	0.000	0.000
2.4	Reserve Numerator	$ 24,426,428	$ 28,285,293
2.5	Reserve Denominator	$ 1,618,225,602	$ 2,065,169,556
2.6	Reserve Ratio (2.4/2.5)	0.015	0.014

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 2006 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 its exposure to unreinsured catastrophic loss.

Due to the Company being well into run-off in 2006 there was no longer the necessity for per risk excess of loss reinsurance on either a facultative or risks attaching basis to protect against the risk of loss arising from single large loss occurrences.

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

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

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

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

8.2 If yes, give full information

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

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

(b) Twenty–five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates. Yes [ ] No [X]

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

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

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

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

9.4 Except for transactions meeting the requirements of paragraph 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 [ ] N/A [ ]

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 the 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 asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- 12.11 Unpaid losses $ 0
- 12.12 Unpaid underwriting expenses (including loss adjustment expenses) $ 0

12.2 Of the amount on Line 13.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? $ 31,300,274

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 $ 1,242,798,015
- 12.62 Collateral and other funds $ 93,441,884

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

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

13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. 1

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

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

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

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

14.5 If answer to 14.4 is no, please explain:

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

15.2 If yes, give full information

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

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

	1 Direct Losses Incurred	2 Direct Losses Unpaid	3 Direct Written Premium	4 Direct Premium Unearned	5 Direct Premium Earned
16.11 Home	$ 1,537,203	$ 23,273	$ 0	$ 0	$ 176,005
16.12 Products	$ 5,002,457	$ 75,735	$ (13)	$ 0	$ 572,765
16.13 Automobile	$ 0	$ 0	$ 0	$ 0	$ 0
16.14 Other*	$	$	$	$	$

* Disclose type of coverage:

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

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

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

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

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

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

FIVE-YEAR HISTORICAL DATA

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

	1 2006	2 2005	3 2004	4 2003	5 2002
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)	(5,002,743)	22,472,322	27,799,424	629,763,302	3,129,414,870
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	(2,008,961)	1,299,270	873,033	214,257,216	510,450,126
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	(4,637,743)	527,821	(1,339,063)	231,115,268	668,256,584
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	11,623,275	6,500,480	19,548,881	(17,550,167)	243,336,275
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)	5,115,067	31,692	(1,267,149)	9,763,406	38,907,249
6. Total (Line 34)	5,088,895	30,831,585	45,615,126	1,067,349,025	4,590,365,104
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)	5,346,070	8,808,723	(14,821,429)	268,603,498	415,341,865
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	104,930	707,042	(1,679,743)	48,122,517	138,217,595
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	259,419	1,131,312	1,825,143	33,750,795	124,292,413
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	3,895,945	(13,171,767)	7,973,776	(112,873,230)	19,140,857
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)	54,643	(237,556)	(1,975,020)	2,962,535	635,532
12. Total (Line 34)	9,661,007	(2,762,246)	(8,677,273)	240,566,115	697,628,262
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	(212,151,242)	(225,300,503)	(227,357,285)	101,824,464	(238,226,578)
14. Net investment gain (loss) (Line 11)	80,620,898	68,978,876	108,977,098	(389,652,336)	(114,325,621)
15. Total other income (Line 15)	3,624,729	55,064,209	14,797,895	(239,745,941)	152,144,259
16. Dividends to policyholders (Line 17)	6,910,195	7,127,581	(49,931,358)	16,972,607	55,400,810
17. Federal and foreign income taxes incurred (Line 19)	(28,425,559)	(24,410,660)	12,317,644	(27,168,635)	(49,888,771)
18. Net income (Line 20)	(106,390,251)	(83,974,339)	(65,968,578)	(517,377,785)	(205,919,979)
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	2,136,458,926	2,735,065,059	3,776,440,507	5,229,941,637	6,071,135,836
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	27,374,791	74,550,449	109,557,218	164,086,680	356,034,235
20.2 Deferred and not yet due (Line 13.2)	29,607,577	47,995,805	90,367,442	145,990,451	678,274,662
20.3 Accrued retrospective premiums (Line 13.3)	34,138,540	58,656,689	107,837,509	157,532,537	123,216,344
21. Total liabilities excluding protected cell business (Page 3, Line 24)	1,962,866,314	2,566,751,908	3,605,005,627	5,027,515,672	5,374,289,793
22. Losses (Page 3, Line 1)	1,087,138,476	1,416,382,931	2,016,267,854	3,094,210,933	2,730,727,148
23. Loss adjustment expenses (Page 3, Line 3)	488,494,066	593,179,696	742,764,295	729,758,862	771,410,165
24. Unearned premiums (Page 3, Line 9)	9,463,192	19,045,951	43,108,518	111,595,492	269,409,686
25. Capital paid up (Page 3, Lines 28 & 29)	0	0	0	0	0
26. Surplus as regards policyholders (Page 3, Line 35)	173,592,612	168,313,151	171,434,880	202,425,965	696,846,043
Risk-Based Capital Analysis					
27. Total adjusted capital	173,592,612	168,313,151	171,434,880	182,973,965	507,183,043
28. Authorized control level risk-based capital	209,285,653	264,983,529	390,670,561	545,728,319	610,695,127
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)	84.7	76.8	58.2	41.9	34.0
30. Stocks (Lines 2.1 & 2.2)	5.3	4.6	4.0	7.1	31.6
31. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.0	0.0	0.1	0.4	1.3
32. Real estate (Lines 4.1, 4.2 & 4.3)	0.3	0.2	1.3	1.0	2.6
33. Cash, cash equivalents and short-term investments (Line 5)	8.0	15.3	34.5	46.9	26.6
34. Contract loans (Line 6)	0.0	0.0	0.0		XXX
35. Other invested assets (Line 7)	1.8	1.4	1.9	2.6	3.8
36. Receivables for securities (Line 8)	0.0	1.6	0.1	0.1	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, (Sch. D, Summary, Line 25, Col. 1)	0	0	0	0	0
40. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)	0	0	0	0	3,116,162
41. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 2)	85,535,429	91,424,689	105,837,000	260,674,361	1,280,052,573
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	0
44. All other affiliated	27,666,041	27,437,526	0	0	0
45. Total of above Lines 39 to 44	113,201,470	118,862,215	105,837,000	260,674,361	1,283,168,735
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)	65.2	70.6	61.7	128.8	184.1

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2006	2 2005	3 2004	4 2003	5 2002
Capital and Surplus Accounts (Page 4)					
47. Net unrealized capital gains (losses) (Line 24)	1,986,345	2,373,602	(22,252,837)	107,581,822	(178,437,296)
48. Dividends to stockholders (Line 35)	0	0	0	0	0
49. Change in surplus as regards policyholders for the year (Line 38)	5,279,461	(3,121,729)	(30,991,085)	(494,420,078)	(569,729,362)
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)	865,340,195	1,042,023,542	928,545,629	872,848,164	1,602,451,470
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	48,150	11,457,743	17,434,877	170,514,662	221,615,571
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	86,115,610	107,495,667	108,880,809	382,980,743	420,217,007
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	16,663,245	127,477,006	88,488,799	232,581,726	110,953,811
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	46,352,848	94,643,337	90,414,974	27,030,651	19,227,534
55. Total (Line 34)	1,014,520,048	1,383,097,295	1,233,765,088	1,685,955,946	2,374,465,393
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)	323,624,151	551,574,190	793,516,536	(429,172,796)	866,964,638
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	133,341	5,201,718	10,622,731	4,758,282	103,134,158
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	46,988,840	63,982,237	94,317,464	41,906,617	213,771,971
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	25,787,433	5,760,329	35,357,196	(78,530)	39,378,931
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	25,395,780	42,221,613	4,861,043	(2,558,166)	5,351,147
61. Total (Line 34)	421,929,545	668,740,087	938,674,970	(385,144,593)	1,228,600,845
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)	481.6	323.3	(232.9)	(5.4)	77.1
64. Loss expenses incurred (Line 3)	258.3	381.0	593.4	(6.4)	20.8
65. Other underwriting expenses incurred (Line 4)	470.7	451.0	125.4	84.3	18.4
66. Net underwriting gain (loss) (Line 8)	(1,102.4)	(1,057.7)	(380.1)	25.6	(16.3)
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)	883.7	(1,503.5)	(654.0)	242.5	16.7
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	739.9	704.2	360.5	(11.8)	97.9
69. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 34 divided by Page 3, Line 35, Col. 1 x 100.0)	5.6	(1.6)	(5.1)	118.8	100.1
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)	32,769	(17,799)	(218,544)	108,673	733,358
71. Percent of development of losses 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)	19.5	(10.4)	(108.0)	15.6	57.9
Two Year Loss Development (000 omitted)					
72. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2 - Summary, Line 12, Col. 12)	(7,234)	(249,085)	(4,933)	1,086,807	893,054
73. Percent of development of losses 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)	(4.2)	(123.0)	(0.7)	85.8	49.3

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	502,428,332	490,104,094	504,414,350	498,079,018
Governments	2. Canada	75,662	76,859	78,439	75,000
(Including all obligations guaranteed	3. Other Countries	0	0	0	0
by governments)	4. Totals	502,503,994	490,180,953	504,492,789	498,154,018
States, Territories and Possessions	5. United States	20,649,383	20,625,294	20,669,750	20,625,000
(Direct and guaranteed)	6. Canada	0	0	0	0
	7. Other Countries	0	0	0	0
	8. Totals	20,649,383	20,625,294	20,669,750	20,625,000
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	130,116,163	130,613,612	130,695,667	130,616,291
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	130,116,163	130,613,612	130,695,667	130,616,291
Public Utilities (unaffiliated)	17. United States	25,113,790	24,549,724	27,104,478	24,000,000
	18. Canada	0	0	0	0
	19. Other Countries	0	0	0	0
	20. Totals	25,113,790	24,549,724	27,104,478	24,000,000
Industrial and Miscellaneous and Credit Tenant	21. United States	688,579,474	656,606,246	692,031,456	692,247,793
Loans (unaffiliated)	22. Canada	11,970,078	11,819,709	12,012,251	11,960,000
	23. Other Countries	15,430,830	15,723,588	15,734,579	12,080,000
	24. Totals	715,980,383	684,149,543	719,778,286	716,287,793
Parent, Subsidiaries and Affiliates	25. Totals	0	0	0	0
	26. **Total Bonds**	1,394,363,713	1,350,119,126	1,402,740,970	1,389,683,103
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	1,255,699	727,791	
(unaffiliated)	46. Canada	0	0	0	
	47. Other Countries	0	0	0	
	48. Totals	727,791	1,255,699	727,791	
Industrial and Miscellaneous (unaffiliated)	49. United States	1,469,302	1,469,302	1,419,754	
	50. Canada	59,464	59,464	28,252	
	51. Other Countries	0	0	0	
	52. Totals	1,528,765	1,528,765	1,448,006	
Parent, Subsidiaries and Affiliates	53. Totals	85,535,429	85,535,429	54,375,143	
	54. **Total Common Stocks**	87,791,985	88,319,894	56,550,940	
	55. **Total Stocks**	87,791,985	88,319,894	56,550,940	
	56. **Total Bonds and Stocks**	1,482,155,699	1,438,439,020	1,459,291,910	

SCHEDULE D - VERIFICATION BETWEEN YEARS

Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year			1,645,823,145
2. Cost of bonds and stocks acquired, Column 7, Part 3			458,499,032
3. Accrual of discount			1,492,857
4. Increase (decrease) by adjustment:			
4.1 Columns 12 - 14, Part 1	173,302		
4.2 Columns 15 - 17, Part 2, Sec. 1	0		
4.3 Column 15, Part 2, Sec. 2	(1,899,071)		
4.4 Columns 11 - 13, Part 4	3,926		(1,721,843)
5. Total gain (loss), Column 19, Part 4			2,518,671
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4			619,473,217
7. Amortization of premium			4,982,945
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	0		0
9. Book/adjusted carrying value at end of current period			1,482,155,699
10. Total valuation allowance			0
11. Subtotal (Lines 9 plus 10)			1,482,155,699
12. Total nonadmitted amounts			0
13. Statement value of bonds and stocks, current period			1,482,155,699

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

($000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								12
	1	2	3	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	Number of Claims Reported - Direct and Assumed
	Direct and Assumed	Ceded	Net (Cols. 1 - 2)	4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
1. Prior	XXX	XXX	XXX	283,485	186,434	51,339	2,662	3,547	1,064	281	148,211	XXX
2. 1997	3,179,134	256,693	2,922,441	1,866,020	168,576	171,223	12,792	121,533	2,895	73,532	1,974,513	XXX
3. 1998	3,283,749	455,427	2,828,322	2,443,598	532,071	229,153	45,721	158,596	5,701	77,290	2,247,854	XXX
4. 1999	3,338,595	888,663	2,449,932	2,700,633	998,249	263,754	67,787	179,497	9,512	102,688	2,068,336	XXX
5. 2000	3,723,754	1,067,553	2,656,201	2,727,800	1,014,221	293,359	83,778	275,716	20,672	226,898	2,178,205	XXX
6. 2001	4,776,690	2,304,460	2,472,230	2,829,994	1,292,509	304,217	72,257	313,105	56,815	159,566	2,025,735	XXX
7. 2002	4,528,662	2,631,131	1,897,531	1,603,907	656,311	203,469	59,950	226,670	97,627	64,737	1,220,158	XXX
8. 2003	2,597,722	2,164,948	432,774	671,855	462,526	63,648	21,272	67,703	16,750	27,722	302,658	XXX
9. 2004	262,845	203,034	59,811	93,892	45,206	9,071	1,568	22,047	2,879	1,668	75,357	XXX
10. 2005	63,843	42,544	21,299	27,452	11,543	2,242	797	12,882	1,398	160	28,839	XXX
11. 2006	24,866	5,621	19,245	7,164	334	610	279	30	1	131	7,190	XXX
12. Totals	XXX	XXX	XXX	15,255,800	5,367,980	1,592,085	368,863	1,381,327	215,312	734,673	12,277,057	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 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	Direct and Assumed	Ceded			
1.	852,320	150,145	(9,672)	23,569	129,319	5,240	130,737	33,793	13,179	2,419	231	900,716	XXX
2.	80,840	19,645	(1,241)	74	3,525	586	17,666	1,571	1,178	123	167	79,968	XXX
3.	132,363	26,990	1,264	3,178	6,529	816	26,764	5,136	1,945	299	2,106	132,445	XXX
4.	203,211	106,314	93,226	47,436	9,598	3,237	38,556	16,281	4,611	1,148	1,072	174,786	XXX
5.	223,938	152,802	76,555	66,899	14,439	7,105	42,571	22,103	7,571	2,272	2,382	113,893	XXX
6.	254,348	149,959	138,349	120,987	18,293	8,541	59,862	29,750	8,972	1,877	5,193	168,710	XXX
7.	245,399	130,096	139,782	122,803	22,067	9,294	58,102	26,758	11,088	2,616	7,342	184,872	XXX
8.	140,962	66,166	80,706	73,412	14,449	6,845	39,372	14,273	6,231	1,711	12,201	119,313	XXX
9.	29,875	14,873	16,094	(1,960)	2,143	1,191	7,041	3,123	986	267	1,210	38,645	XXX
10.	3,550	169	4,759	(29,312)	423	68	3,317	5,875	389	120	361	35,518	XXX
11.	985	433	2,809	706	595	390	1,580	325	1,628	216	24	5,527	XXX
12. Totals	2,167,791	817,592	542,631	427,792	221,380	43,313	425,568	158,988	57,777	13,068	32,289	1,954,395	XXX

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense	Inter-Company Pooling Participation Percentage	35 Losses Unpaid	36 Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	225,883	133	XXX	443,051	231,649
2.	2,260,743	206,262	2,054,482	71.1	80.4	70.3	18,222	5		41,658	20,083
3.	3,000,211	619,912	2,380,299	91.4	136.1	84.2	29,647	21		73,812	28,965
4.	3,493,086	1,249,963	2,243,122	104.6	140.7	91.6	29,566	114		113,121	31,985
5.	3,661,949	1,369,852	2,292,098	98.3	128.3	86.3	17,123	229		63,669	32,872
6.	3,927,140	1,732,695	2,194,445	82.2	75.2	88.8	13,720	136		108,031	46,823
7.	2,510,484	1,105,455	1,405,030	55.4	42.0	74.0	21,461	160		110,821	52,430
8.	1,084,926	662,954	421,971	41.8	30.6	97.5	14,859	66		67,231	37,157
9.	181,149	67,147	114,002	68.9	33.1	190.6	3,518	1		29,538	5,588
10.	55,014	(9,342)	64,357	86.2	(22.0)	302.2	2,961	0		34,491	(1,934)
11.	15,402	2,684	12,718	61.9	47.7	66.1	942	0		1,713	2,872
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	377,902	865	XXX	1,087,136	488,492

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 1997	2 1998	3 1999	4 2000	5 2001	6 2002	7 2003	8 2004	9 2005	10 2006	11 One Year	12 Two Year
1. Prior	3,943,586	3,616,758	3,549,695	3,399,805	3,971,554	4,071,982	4,046,756	3,874,695	3,851,205	3,872,526	21,321	(2,169)
2. 1997	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	1,942,751	629	(19,538)
3. 1998	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	2,236,792	9,531	(10,128)
4. 1999	XXX	XXX	1,691,083	1,863,880	1,846,588	1,936,001	1,964,823	2,055,995	2,048,447	2,078,507	30,060	22,512
5. 2000	XXX	XXX	XXX	1,610,206	1,618,950	1,924,181	1,992,791	2,018,444	2,021,671	2,039,739	18,068	21,295
6. 2001	XXX	XXX	XXX	XXX	1,728,348	2,055,038	2,104,151	2,076,798	2,004,240	1,949,773	(54,467)	(127,025)
7. 2002	XXX	XXX	XXX	XXX	XXX	1,250,837	1,222,205	1,179,190	1,238,222	1,275,047	36,825	95,857
8. 2003	XXX	XXX	XXX	XXX	XXX	XXX	470,626	365,688	416,310	369,719	(46,591)	4,031
9. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	86,184	98,926	94,115	(4,811)	7,931
10. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	30,399	52,603	22,204	XXX
11. 2006	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	11,276	XXX	XXX
										12. Totals	32,769	(7,234)

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 1997	2 1998	3 1999	4 2000	5 2001	6 2002	7 2003	8 2004	9 2005	10 2006	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
1. Prior	000	737,545	1,182,547	1,615,347	1,941,359	2,096,156	2,314,012	2,569,589	2,749,005	2,894,733	XXX	XXX
2. 1997	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	1,855,875	XXX	XXX
3. 1998	XXX	721,916	1,245,640	1,552,087	1,761,112	1,902,492	1,946,192	2,015,501	2,060,890	2,094,959	XXX	XXX
4. 1999	XXX	XXX	686,918	1,185,332	1,466,033	1,627,526	1,658,754	1,734,067	1,827,087	1,898,351	XXX	XXX
5. 2000	XXX	XXX	XXX	759,838	1,237,516	1,532,059	1,637,902	1,771,898	1,866,599	1,923,160	XXX	XXX
6. 2001	XXX	XXX	XXX	XXX	727,783	1,210,266	1,461,707	1,652,384	1,749,284	1,769,445	XXX	XXX
7. 2002	XXX	XXX	XXX	XXX	XXX	459,740	553,991	781,826	950,162	1,091,115	XXX	XXX
8. 2003	XXX	XXX	XXX	XXX	XXX	XXX	(103,954)	66,876	199,618	251,705	XXX	XXX
9. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	33,452	47,607	56,189	XXX	XXX
10. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	14,594	17,354	XXX	XXX
11. 2006	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	7,161	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 1997	2 1998	3 1999	4 2000	5 2001	6 2002	7 2003	8 2004	9 2005	10 2006
1. Prior	1,853,834	1,207,188	893,308	481,251	711,899	599,434	355,640	212,034	134,490	151,539
2. 1997	839,586	474,582	274,170	144,503	89,366	58,311	50,087	33,961	29,001	22,742
3. 1998	XXX	780,984	334,188	268,098	75,630	54,756	35,428	73,177	37,448	30,747
4. 1999	XXX	XXX	570,957	301,863	68,238	160,881	88,375	141,801	63,068	76,898
5. 2000	XXX	XXX	XXX	550,986	43,166	157,507	104,598	82,342	39,041	38,109
6. 2001	XXX	XXX	XXX	XXX	614,611	409,730	294,420	219,232	116,994	66,187
7. 2002	XXX	XXX	XXX	XXX	XXX	482,914	292,680	142,392	120,914	55,856
8. 2003	XXX	XXX	XXX	XXX	XXX	XXX	406,590	140,924	99,582	35,614
9. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	28,464	32,956	21,972
10. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	13,132	31,513
11. 2006	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,358

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

States, etc.		1 Is Insurer Licensed? (Yes or No)	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken 2 Direct Premiums Written	 3 Direct Premiums Earned	4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
1. Alabama	AL	Yes	525,914	609,870	(109,466)	12,731,235	(2,203,665)	6,810,232	0	
2. Alaska	AK	Yes	(61,538)	(61,538)	(8,958)	845,097	566,754	883,539	0	
3. Arizona	AZ	Yes	37,308	49,339	(64,839)	3,554,190	508,704	8,283,175	0	
4. Arkansas	AR	Yes	60,185	68,194	(43,152)	21,487,251	17,859,872	8,262,066	0	
5. California	CA	Yes	465,518	579,288	(1,427,961)	54,682,914	15,456,593	105,699,886	0	
6. Colorado	CO	Yes	24,594	72,656	(63,864)	1,898,642	1,468,012	1,749,370	0	
7. Connecticut	CT	Yes	(97,247)	(31,910)	(176,018)	12,530,492	3,185,397	20,330,996	0	
8. Delaware	DE	Yes	63,590	75,475	(66,912)	(1,636,586)	(762,158)	2,330,548	0	
9. District of Columbia	DC	Yes	40,972	41,792	(8,243)	178,168	(1,014,524)	5,855,250	0	
10. Florida	FL	Yes	(457,568)	213,984	(381,682)	497,587	(1,589,150)	31,033,071	0	
11. Georgia	GA	Yes	(624,167)	(580,622)	(312,172)	10,237,698	(6,036,794)	17,450,980	0	
12. Hawaii	HI	Yes	76,789	147,992	(23,866)	492,791	1,239,876	2,611,721	0	
13. Idaho	ID	Yes	54,843	54,887	(52,075)	135,724	(59,720)	(48,134)	0	
14. Illinois	IL	Yes	178,574	277,633	(1,560,014)	100,291,764	(65,646,090)	97,947,061	0	
15. Indiana	IN	Yes	239,266	240,080	(253,094)	4,076,271	2,647,890	3,935,859	0	
16. Iowa	IA	Yes	(109,155)	(102,609)	(23,476)	1,053,871	(904,824)	1,487,324	0	
17. Kansas	KS	Yes	(128,265)	(122,236)	(25,085)	465,912	(164,505)	2,250,298	0	
18. Kentucky	KY	Yes	(198,090)	(72,258)	(182,331)	1,709,087	(1,363,975)	15,549,734	0	
19. Louisiana	LA	Yes	51,411	70,483	(73,711)	(423,452)	191,867	7,022,498	0	
20. Maine	ME	Yes	(30,617)	(23,821)	(12,175)	1,778,608	1,543,951	101,149	0	
21. Maryland	MD	Yes	306,702	321,842	(302,708)	6,090,935	1,030,336	18,076,972	0	
22. Massachusetts	MA	Yes	86,162	143,377	(342,505)	15,627,966	7,862,451	16,033,219	0	
23. Michigan	MI	Yes	571,313	616,618	(1,213,683)	4,717,321	(581,227)	7,017,775	0	
24. Minnesota	MN	Yes	(84,278)	(42,678)	(126,601)	5,801,509	(5,775,402)	10,394,208	0	
25. Mississippi	MS	Yes	(224,620)	(186,149)	(129,711)	219,010	(61,814)	3,039,429	0	
26. Missouri	MO	Yes	(26,366)	42,460	(83,404)	1,914,050	936,291	3,357,934	0	
27. Montana	MT	Yes	(7,849)	(7,849)	(73,311)	234,753	25,227	449,131	0	
28. Nebraska	NE	Yes	(63,957)	(51,451)	(13,275)	461,003	423,055	1,479,680	0	
29. Nevada	NV	Yes	(254,320)	(252,104)	(12,312)	1,261,047	84,768	2,452,372	0	
30. New Hampshire	NH	Yes	334,327	343,672	(222,952)	792,478	(9,323)	2,994,888	0	
31. New Jersey	NJ	Yes	(65,629)	429,113	(185,998)	23,322,442	20,719,561	62,683,481	0	
32. New Mexico	NM	Yes	103,950	105,572	(12,168)	507,299	251,280	442,152	0	
33. New York	NY	Yes	233,364	822,705	(1,105,948)	59,931,610	(25,293,448)	187,481,962	0	
34. North Carolina	NC	Yes	(866,069)	(827,817)	(174,595)	2,069,813	(2,916,234)	9,449,633	0	
35. North Dakota	ND	Yes	841	841	(508)	0	15,757	220,682	0	
36. Ohio	OH	Yes	164,197	183,965	(112,915)	3,466,791	3,600,439	13,180,543	0	
37. Oklahoma	OK	Yes	(163,096)	(162,105)	(55,867)	(352,028)	(368,363)	1,270,259	0	
38. Oregon	OR	Yes	(614,289)	(610,417)	(193,814)	3,465,126	992,553	6,753,666	0	
39. Pennsylvania	PA	Yes	(409,763)	(334,762)	(646,266)	28,569,437	7,274,487	24,550,508	0	
40. Rhode Island	RI	Yes	174,199	174,410	(38,215)	(607,716)	(905,085)	5,427,302	0	
41. South Carolina	SC	Yes	(231,246)	(170,438)	(41,315)	515,812	2,429,085	14,265,979	0	
42. South Dakota	SD	Yes	(26,317)	(26,317)	(13,426)	52,288	41,884	466,086	0	
43. Tennessee	TN	Yes	181,698	205,452	(208,685)	(1,206,688)	(9,625,491)	7,624,658	0	
44. Texas	TX	Yes	(339,392)	(270,556)	(513,785)	6,633,917	(19,611,198)	76,442,740	0	
45. Utah	UT	Yes	17,862	17,879	(35,313)	907,521	759,514	486,131	0	
46. Vermont	VT	Yes	(9,731)	(3,213)	(13,687)	(273,408)	(611,006)	586,106	0	
47. Virginia	VA	Yes	(126,082)	(38,309)	(143,620)	5,082,027	(1,773,329)	7,553,044	0	
48. Washington	WA	Yes	117,168	176,665	(48,626)	2,693,025	44,444	10,435,477	0	
49. West Virginia	WV	Yes	(2,408)	(1,934)	(9,205)	674,923	490,838	(106,930)	0	
50. Wisconsin	WI	Yes	1,031,810	1,034,946	(494,617)	4,119,818	2,963,449	9,450,508	0	
51. Wyoming	WY	Yes	(10,198)	(10,198)	(10,214)	17,639	(25,253)	(11,730)	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	(312)	(312)	(23,645)	1,663,912	543,410	1,604,453	0	
55. U.S. Virgin Islands	VI	No	0	0	0	0	0	0	0	
56. Northern Mariana Islands	MP	Yes	14,139	14,139	0	0	0	0	0	
57. Canada	CN	Yes	50,446	249,562	(60,473)	1,840,836	19,255,641	20,733,971	0	
58. Aggregate other alien	OT	XXX	(25,773)	265,756	0	960,561	4,712,865	6,608,118	0	0
59. Totals		(a) 53	(51,200)	3,659,044	(11,532,461)	407,762,293	(28,176,327)	872,441,030	0	0
DETAILS OF WRITE-INS										
5801. Asia		XXX	5,567	5,269	0	0	4,557,277	5,013,797	0	
5802. Australia		XXX	(65,168)	(49,646)	0	0	(132)	(6,548)	0	
5803. Europe		XXX	9,219	98,321	0	960,561	304,228	1,851,351	0	
5898. Summary of remaining write-ins for Line 58 from overflow page		XXX	24,609	211,812	0	0	(148,508)	(250,482)	0	0
5899. Totals (Lines 5801 through 5803 + 5898) (Line 58 above)		XXX	(25,773)	265,756	0	960,561	4,712,865	6,608,118	0	0

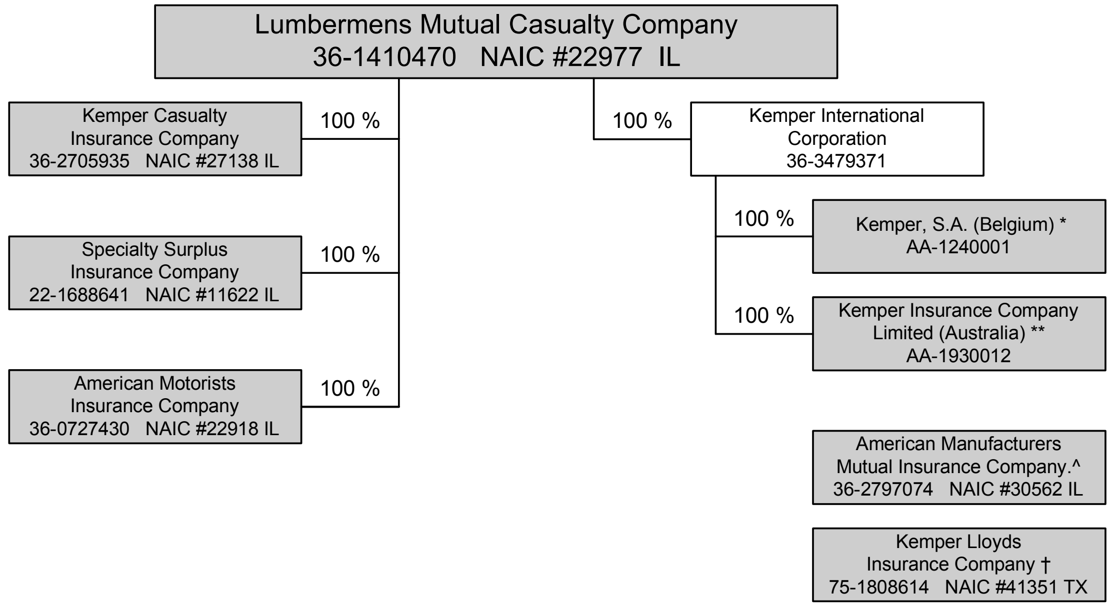
(a) Insert the number of yes responses except for Canada and Other Alien.

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 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 12/31/2006.