



ANNUAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007
OF THE CONDITION AND AFFAIRS OF THE
LUMBERMENS MUTUAL CASUALTY COMPANY

NAIC Group Code 0108, 0108 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, Long Grove, IL 60049-0001
Main Administrative Office 1 Kemper Drive, Long Grove, IL 60049-0001 847-320-2000
Mail Address 1 Kemper Drive, Long Grove, IL 60049-0001
Primary Location of Books and Records 1 Kemper Drive, Long Grove, IL 60049-0001 847-320-3127
Internet Website Address www.kemperinsurance.com
Statutory Statement Contact Fredrick Thomas Griffith, 847-320-3127
Fred.Griffith@kemperinsurance.com, 847-320-3818

OFFICERS

Table with 4 columns: Name, Title, Name, Title. Includes Douglas Sean Andrews (President and CEO), Fredrick Thomas Griffith # (Chief Financial Officer), John Keating Conway (Secretary), and Geoffrey Andrew Cooke (Treasurer).

OTHER OFFICERS

Table with 4 columns: Name, Title, Name, Title. Includes Frederick Otto Kist (Senior Vice President) and Benjamin David Schwartz (Senior Vice President).

DIRECTORS OR TRUSTEES

Table with 4 columns: Name, Name, Name, Name. Includes Douglas Sean Andrews, Peter Bannerman Hamilton, George Ralph Lewis, and Arthur James Massolo.

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 Financial Officer

Subscribed and sworn to before me this
20th day of February, 2008

- 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

ANNUAL STATEMENT FOR THE YEAR 2007 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D).....	1,142,842,600		1,142,842,600	1,394,363,713
2. Stocks (Schedule D):				
2.1 Preferred stocks	0		0	0
2.2 Common stocks	62,446,511		62,446,511	87,791,985
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens			0	0
3.2 Other than first liens			0	0
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$0 encumbrances).....			0	0
4.2 Properties held for the production of income (less \$0 encumbrances)			0	0
4.3 Properties held for sale (less \$0 encumbrances)			0	4,172,747
5. Cash (\$8,554,300 , Schedule E, Part 1), cash equivalents (\$241,815 , Schedule E, Part 2) and short-term investments (\$146,965,401 , Schedule DA).....	155,761,516		155,761,516	130,978,945
6. Contract loans, (including \$0 premium notes)			0	0
7. Other invested assets (Schedule BA)	6,171,061	0	6,171,061	28,898,383
8. Receivables for securities			0	0
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	1,367,221,688	0	1,367,221,688	1,646,205,773
11. Title plants less \$0 charged off (for Title insurers only).....			0	0
12. Investment income due and accrued	9,527,871		9,527,871	13,876,735
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	24,202,210	16,958,242	7,243,968	27,374,791
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premium).....	26,462,571	4,554,587	21,907,984	29,607,577
13.3 Accrued retrospective premium.....	17,502,574	621,400	16,881,174	34,138,540
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	150,861,249		150,861,249	236,048,560
14.2 Funds held by or deposited with reinsured companies	11,568,086		11,568,086	12,677,226
14.3 Other amounts receivable under reinsurance contracts			0	0
15. Amounts receivable relating to uninsured plans			0	0
16.1 Current federal and foreign income tax recoverable and interest thereon			0	0
16.2 Net deferred tax asset	705,046,187	705,046,187	0	0
17. Guaranty funds receivable or on deposit			0	0
18. Electronic data processing equipment and software			0	0
19. Furniture and equipment, including health care delivery assets (\$0)			0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates	153,226		153,226	0
21. Receivables from parent, subsidiaries and affiliates			0	3,209,996
22. Health care (\$0) and other amounts receivable			0	0
23. Aggregate write-ins for other than invested assets	114,957,780	16,075,512	98,882,268	133,319,728
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	2,427,503,442	743,255,928	1,684,247,514	2,136,458,926
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
26. Total (Lines 24 and 25)	2,427,503,442	743,255,928	1,684,247,514	2,136,458,926
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.....	22,237,882	5,894,220	16,343,662	28,306,088
2302. Reinsurance accounted for as a deposit.....	811,766		811,766	12,798,675
2303. Advance to claims service provider.....	10,029,880		10,029,880	12,254,905
2398. Summary of remaining write-ins for Line 23 from overflow page	81,878,252	10,181,292	71,696,960	79,960,060
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	114,957,780	16,075,512	98,882,268	133,319,728

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	908,734,516	1,087,138,476
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	21,314,152	33,129,868
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	328,662,125	488,494,066
4. Commissions payable, contingent commissions and other similar charges	1,509,174	1,414,716
5. Other expenses (excluding taxes, licenses and fees)	14,016,142	22,763,756
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	38,989,454	43,722,214
7.1 Current federal and foreign income taxes (including \$0 on realized capital gains (losses))	6,079,827	6,053,607
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 \$2,770,568 and including warranty reserves of \$492,074)	5,405,172	9,463,192
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)	5,621,847	12,639,888
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	3,031,038	3,787,577
14. Amounts withheld or retained by company for account of others	123,516,395	153,814,393
15. Remittances and items not allocated	9,227,740	7,281,322
16. Provision for reinsurance (Schedule F, Part 7)	0	0
17. Net adjustments in assets and liabilities due to foreign exchange rates	0	4,993,035
18. Drafts outstanding	0	0
19. Payable to parent, subsidiaries and affiliates	490,170	0
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	66,985,376	88,170,204
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	1,533,583,128	1,962,866,314
25. Protected cell liabilities	0	0
26. Total liabilities (Lines 24 and 25)	1,533,583,128	1,962,866,314
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)	(549,191,212)	(526,262,986)
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)	150,664,386	173,592,612
36. Totals (Page 2, Line 26, Col. 3)	1,684,247,514	2,136,458,926
DETAILS OF WRITE-INS		
2301. Accounts payable and other liabilities	66,985,376	88,170,204
2302.		
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	66,985,376	88,170,204
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

ANNUAL STATEMENT FOR THE YEAR 2007 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

STATEMENT OF INCOME

	1 Current Year	2 Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 34, Column 4)	13,731,237	19,243,766
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 34, Column 7)	136,982,042	92,685,090
3. Loss expenses incurred (Part 3, Line 25, Column 1)	(42,036,268)	49,706,782
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	57,956,166	90,577,836
5. Aggregate write-ins for underwriting deductions	0	(1,574,700)
6. Total underwriting deductions (Lines 2 through 5)	152,901,940	231,395,008
7. Net income of protected cells	0	0
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	(139,170,703)	(212,151,242)
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	68,422,989	78,435,208
10. Net realized capital gains (losses) less capital gains tax of \$ 0 (Exhibit of Capital Gains (Losses))	(3,662,654)	2,185,690
11. Net investment gain (loss) (Lines 9 + 10)	64,760,335	80,620,898
OTHER INCOME		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 126,103 amount charged off \$ (329,370))	455,473	(32,330,053)
13. Finance and service charges not included in premiums	0	0
14. Aggregate write-ins for miscellaneous income	8,118,015	35,954,782
15. Total other income (Lines 12 through 14)	8,573,488	3,624,729
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(65,836,880)	(127,905,615)
17. Dividends to policyholders	5,082,057	6,910,195
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)	(70,918,937)	(134,815,810)
19. Federal and foreign income taxes incurred	(3,032,855)	(28,425,559)
20. Net income (Line 18 minus Line 19) (to Line 22)	(67,886,082)	(106,390,251)
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	173,592,612	168,313,151
22. Net income (from Line 20)	(67,886,082)	(106,390,251)
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	(3,031,350)	1,986,345
25. Change in net unrealized foreign exchange capital gain (loss)	5,146,261	346,641
26. Change in net deferred income tax	3,356,660	(58,278,929)
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	22,574,607	101,371,987
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	0	0
29. Change in surplus notes	0	0
30. Surplus (contributed to) withdrawn from protected cells	0	0
31. Cumulative effect of changes in accounting principles	0	0
32. Capital changes:		
32.1. Paid in	0	0
32.2. Transferred from surplus (Stock Dividend)	0	0
32.3. Transferred to surplus	0	0
33. Surplus adjustments:		
33.1. Paid in	0	0
33.2. Transferred to capital (Stock Dividend)	0	0
33.3. Transferred from capital	0	0
34. Net remittances from or (to) Home Office	0	0
35. Dividends to stockholders	0	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	16,911,678	66,243,668
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	(22,928,226)	5,279,461
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)	150,664,386	173,592,612
DETAILS OF WRITE-INS		
0501. Change in premium deficiency reserve	0	(1,574,700)
0502.	0	0
0503.	0	0
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)	0	(1,574,700)
1401. Other income	8,118,015	35,954,782
1402.	0	0
1403.	0	0
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)	8,118,015	35,954,782
3701. Provision for uncollectible reinsurance	16,911,678	66,243,668
3702.	0	0
3703.	0	0
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)	16,911,678	66,243,668

CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
Cash from Operations		
1. Premiums collected net of reinsurance.....	42,446,084	94,366,123
2. Net investment income	67,565,430	83,463,736
3. Miscellaneous income	9,682,628	1,505,521
4. Total (Lines 1 through 3)	119,694,142	179,335,380
5. Benefit and loss related payments	242,014,407	324,948,791
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	189,036,101	246,597,315
8. Dividends paid to policyholders	(12,474,173)	(18,320,480)
9. Federal and foreign income taxes paid (recovered) net of \$0 tax on capital gains (losses).....	(3,059,075)	(26,222,821)
10. Total (Lines 5 through 9)	415,517,260	527,002,805
11. Net cash from operations (Line 4 minus Line 10)	(295,823,118)	(347,667,425)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	707,352,244	608,644,584
12.2 Stocks	42,316,522	10,828,635
12.3 Mortgage loans	0	768,916
12.4 Real estate	4,015,225	0
12.5 Other invested assets	18,496,500	1,250,908
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(673,404)	(344,633)
12.7 Miscellaneous proceeds	10,000	32,476,418
12.8 Total investment proceeds (Lines 12.1 to 12.7)	771,517,087	653,624,828
13. Cost of investments acquired (long-term only):		
13.1 Bonds	458,658,498	458,499,032
13.2 Stocks	16,324,000	0
13.3 Mortgage loans	0	0
13.4 Real estate	0	0
13.5 Other invested assets	840,000	588,000
13.6 Miscellaneous applications	0	0
13.7 Total investments acquired (Lines 13.1 to 13.6)	475,822,498	459,087,032
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)	295,694,589	194,537,796
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	0
16.5 Dividends to stockholders	0	0
16.6 Other cash provided (applied).....	24,911,100	(24,162,328)
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	24,911,100	(24,162,328)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17).....	24,782,571	(177,291,957)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	130,978,945	308,270,902
19.2 End of year (Line 18 plus Line 19.1)	155,761,516	130,978,945

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS EARNED

Lines of Business		1	2	3	4
		Net Premiums Written per Column 6, Part 1B	Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	Premiums Earned During Year (Cols. 1 + 2 - 3)
1.	Fire	63,329	37,182	604	99,907
2.	Allied lines	7,829	12,716	429	20,116
3.	Farmowners multiple peril	0	0	0	0
4.	Homeowners multiple peril	(17,371)	4,516	171	(13,026)
5.	Commercial multiple peril	(161,690)	18,145	10,852	(154,397)
6.	Mortgage guaranty	0	0	0	0
8.	Ocean marine	(163,621)	(3,274)	0	(166,895)
9.	Inland marine	227,148	1,902	220	228,830
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	(17,769)	0	0	(17,769)
13.	Group accident and health	(405)	0	0	(405)
14.	Credit accident and health (group and individual)	0	0	0	0
15.	Other accident and health	2,506	0	0	2,506
16.	Workers' compensation	6,595,363	469,331	0	7,064,694
17.1	Other liability - occurrence	24,176	(125,319)	(100,936)	(207)
17.2	Other liability - claims-made	156,446	5,947,431	3,149,587	2,954,290
18.1	Products liability - occurrence	(323,624)	174,740	160,258	(309,142)
18.2	Products liability - claims-made	0	0	0	0
19.1,19.2	Private passenger auto liability	(120,669)	(71,682)	0	(192,351)
19.3,19.4	Commercial auto liability	42,998	73,392	0	116,390
21.	Auto physical damage	12,951	21,450	0	34,401
22.	Aircraft (all perils)	146,933	0	0	146,933
23.	Fidelity	0	0	0	0
24.	Surety	3,196,057	2,730,766	2,166,731	3,760,092
26.	Burglary and theft	0	977	0	977
27.	Boiler and machinery	2,429	0	0	2,429
28.	Credit	(145)	0	0	(145)
29.	International	0	0	0	0
30.	Reinsurance - Nonproportional Assumed Property	0	3,274	0	3,274
31.	Reinsurance - Nonproportional Assumed Liability	346	167,645	17,256	150,735
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	9,673,217	9,463,192	5,405,172	13,731,237
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	604				604
2.	Allied lines	429				429
3.	Farmowners multiple peril					0
4.	Homeowners multiple peril	171				171
5.	Commercial multiple peril	10,858	(6)			10,852
6.	Mortgage guaranty					0
8.	Ocean marine					0
9.	Inland marine		220			220
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					0
17.1	Other liability - occurrence	5,053	(105,989)			(100,936)
17.2	Other liability - claims-made	321,234	2,828,353			3,149,587
18.1	Products liability - occurrence	11,259	148,999			160,258
18.2	Products liability - claims-made					0
19.1,19.2	Private passenger auto liability					0
19.3,19.4	Commercial auto liability					0
21.	Auto physical damage					0
22.	Aircraft (all perils)					0
23.	Fidelity					0
24.	Surety	(97,121)	2,263,852			2,166,731
26.	Burglary and theft					0
27.	Boiler and machinery					0
28.	Credit					0
29.	International					0
30.	Reinsurance - Nonproportional Assumed Property	0				0
31.	Reinsurance - Nonproportional Assumed Liability	34,220	(16,964)			17,256
32.	Reinsurance - Nonproportional Assumed Financial Lines					0
33.	Aggregate write-ins for other lines of business	0	0	0	0	0
34.	TOTALS	286,707	5,118,465	0	0	5,405,172
35.	Accrued retrospective premiums based on experience					
36.	Earned but unbilled premiums					
37.	Balance (Sum of Line 34 through 36)					5,405,172
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		Reinsurance Ceded		6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
		2 From Affiliates	3 From Non-Affiliates	4 To Affiliates	5 To Non-Affiliates	
1. Fire	.85	.60,289	(595)		(3,550)	.63,329
2. Allied lines	186	15,108	(180,762)		(173,297)	.7,829
3. Farmowners multiple peril						.0
4. Homeowners multiple peril	(26)	(2,291)	(274)		14,780	(17,371)
5. Commercial multiple peril	(364,577)	(17,809)	725		(219,971)	(161,690)
6. Mortgage guaranty						.0
8. Ocean marine	651	(125)			164,147	(163,621)
9. Inland marine	1,552	(2,470)	(147,877)		(375,943)	.227,148
10. Financial guaranty						.0
11.1 Medical malpractice - occurrence						.0
11.2 Medical malpractice - claims-made						.0
12. Earthquake		(2,214)			15,555	(17,769)
13. Group accident and health			(405)			(405)
14. Credit accident and health (group and individual)						.0
15. Other accident and health	41,578				39,072	.2,506
16. Workers' compensation	(919,469)	2,079,184	407,770	(10,031)	(5,017,847)	6,595,363
17.1 Other liability - occurrence	44,458	(52,745)	(810,512)		(842,975)	24,176
17.2 Other liability - claims-made	14,457	12,286	(121,872)		(251,575)	156,446
18.1 Products liability - occurrence	(2,907)	32,382	35,868		388,967	(323,624)
18.2 Products liability - claims-made			65,489		65,489	.0
19.1,19.2 Private passenger auto liability		(244)	(1,675)		118,750	(120,669)
19.3,19.4 Commercial auto liability	(471)	15,563	(3,612)		(31,518)	42,998
21. Auto physical damage	(1,787)	(1,235)	6,187		(9,786)	12,951
22. Aircraft (all perils)	(122,692)		(217,460)		(487,085)	146,933
23. Fidelity						.0
24. Surety	705,980	2,177,473		29,387	(341,991)	3,196,057
26. Burglary and theft					(2,429)	2,429
27. Boiler and machinery					(576)	(145)
28. Credit	(721)					
29. International						.0
30. Reinsurance - Nonproportional Assumed Property	XXX		2,012		2,012	.0
31. Reinsurance - Nonproportional Assumed Liability	XXX		115,575		115,229	.346
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	(603,703)	4,313,152	(851,418)	19,356	(6,834,542)	9,673,217
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 \$

ANNUAL STATEMENT FOR THE YEAR 2007 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - LOSSES PAID AND INCURRED

Line of Business	Losses Paid Less Salvage				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 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)				
1. Fire	(307,230)	342,904	207,096	(171,422)	(1,082,296)	(5,692,591)	4,438,873	4,443.0
2. Allied lines	(277)	798,493	798,373	(157)	20,560	(5,500,370)	5,520,773	27,444.7
3. Farmowners multiple peril		56,613	56,613		0		(277)	0.0
4. Homeowners multiple peril	377,898	908,280	305,872	980,306	1,289,525	2,052,828	217,003	(1,665.9)
5. Commercial multiple peril	9,410,444	27,712,222	7,004,107	30,118,559	44,727,847	49,877,430	24,968,976	(16,171.9)
6. Mortgage guaranty				0	0		0	0.0
8. Ocean marine	870,421	426,033	1,479,407	(182,953)	(58,335)	(1,914,901)	1,673,613	(1,002.8)
9. Inland marine	264,133	401,224	134,480	530,877	57,759	250,686	337,950	147.7
10. Financial guaranty				0	0		0	0.0
11.1 Medical malpractice - occurrence				0	110,871	56,690	54,181	0.0
11.2 Medical malpractice - claims-made	281,354	133,484	188,009	226,829	664,642	1,560,664	(669,193)	0.0
12. Earthquake				0	(75,405)	(68,279)	(7,126)	40.1
13. Group accident and health	4,716,674	2,188,019	(710,311)	7,615,004	21,817,701	23,810,540	5,622,165	(1,388,188.9)
14. Credit accident and health (group and individual)				0	0		0	0.0
15. Other accident and health	9,642	(529)	1,486	7,627	(149,593)	(140,127)	(1,839)	(73.4)
16. Workers' compensation	71,129,732	148,796,543	96,602,188	123,324,087	604,155,460	659,490,404	67,989,143	962.4
17.1 Other liability - occurrence	51,326,745	43,650,624	60,686,587	34,290,782	66,103,095	80,171,219	20,222,658	(9,769,400.0)
17.2 Other liability - claims-made	43,039,389	31,220,051	38,355,762	35,903,678	56,147,243	102,155,642	(10,104,721)	(342.0)
18.1 Products liability - occurrence	6,538,742	47,370,769	30,889,949	23,019,562	(9,239,000)	(13,074,501)	26,855,063	(8,687.0)
18.2 Products liability - claims-made		436,830	2,311,694	(1,874,864)	(108,869)	53,251	(2,036,984)	0.0
19.1,19.2 Private passenger auto liability	13,086,687	10,585,491	10,441,477	13,230,701	5,845,623	16,965,180	2,111,144	(1,097.5)
19.3,19.4 Commercial auto liability	14,557,236	19,873,212	14,848,793	19,581,655	10,866,432	30,706,613	(258,526)	(222.1)
21. Auto physical damage	(169,108)	254,691	184,351	(98,768)	952,878	34,198	819,912	2,383.4
22. Aircraft (all perils)		1,537,777	7,725	1,530,052	6,043,608	18,451,289	(10,877,629)	(7,403.1)
23. Fidelity	(106,159)	(70,982)	(45,086)	(132,055)	45,280	382,481	(469,256)	0.0
24. Surety	(2,757,431)	(1,265,278)	(3,231,976)	(790,733)	22,267,379	23,507,663	(2,031,017)	(54.0)
26. Burglary and theft	(81)		(56)	(25)	0	0	(25)	(2.6)
27. Boiler and machinery	146,650	16,479	(190,918)	354,047	(69,744)	(48,238)	332,541	13,690.4
28. Credit	(111,761)	(1,916,041)	(961,059)	(1,066,743)	27	33	(1,066,749)	735,689.0
29. International				0	0	0	0	0.0
30. Reinsurance - Nonproportional Assumed Property	XXX	534,886	460,407	74,479	445,296	519,775	0	0.0
31. Reinsurance - Nonproportional Assumed Liability	XXX	39,806,162	10,890,685	28,915,477	77,956,532	103,530,620	3,341,389	2,216.7
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	212,303,700	373,797,957	270,715,655	315,386,002	908,734,516	1,087,138,476	136,982,042	997.6
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

6

ANNUAL STATEMENT FOR THE YEAR 2007 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

**UNDERWRITING AND INVESTMENT EXHIBIT
PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

Line of Business	Reported Losses				Incurred But Not Reported			8 Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	9 Unpaid Loss Adjustment Expenses
	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		
1. Fire	59,648	290,543	1,365,064	(1,014,873)	155,391	415,466	638,280	(1,082,296)	(223,470)
2. Allied lines	26,227	180,734	187,998	18,963	(9,974)	16,988	5,417	20,560	5,034
3. Farmowners multiple peril				0				0	
4. Homeowners multiple peril	769,861	1,265,859	415,238	1,620,482	(299,795)	434,425	465,587	1,289,525	545,217
5. Commercial multiple peril	8,581,187	40,319,825	9,514,773	39,386,239	(815,135)	(9,116,730)	(15,273,473)	44,727,847	43,293,213
6. Mortgage guaranty				0				0	
8. Ocean marine	237,492	(207,816)	(162,247)	191,923	(12,499)	(341,893)	(104,134)	(58,335)	71,849
9. Inland marine	289,371	541,309	798,521	32,159	144,628	959,671	1,078,699	57,759	410,952
10. Financial guaranty				0				0	
11.1 Medical malpractice - occurrence		237,974	83,750	154,224	(2,064)	(12,458)	28,831	110,871	53,912
11.2 Medical malpractice - claims-made	750,000	495,537	828,809	416,728	413,229	504,875	670,190	664,642	536,415
12. Earthquake		12,458	12,458	0	2	(66,945)	8,462	(75,405)	(942)
13. Group accident and health	53,750,771	15,258,276	48,375,694	20,633,353	5,712,150	336,684	4,864,486	(a) 21,817,701	48,153
14. Credit accident and health (group and individual)				0				0	
15. Other accident and health		508,150	508,150	0	(83,113)	15,775	82,255	(a) (149,593)	(5,844)
16. Workers' compensation	437,248,224	825,734,457	400,546,531	862,436,150	(40,828,701)	(48,623,094)	168,828,895	604,155,460	139,905,566
17.1 Other liability - occurrence	91,320,034	66,215,557	67,113,824	90,421,767	17,193,261	721,365	42,233,298	66,103,095	60,381,116
17.2 Other liability - claims-made	48,539,224	32,130,501	40,405,004	40,264,721	19,829,908	16,863,637	20,811,023	56,147,243	16,256,507
18.1 Products liability - occurrence	14,958,424	26,768,750	34,232,956	7,494,218	7,915,540	(9,314,957)	15,333,801	(9,239,000)	37,033,845
18.2 Products liability - claims-made		310,124	310,124	0		159,991	268,860	(108,869)	35,816
19.1,19.2 Private passenger auto liability	5,390,976	7,909,363	8,556,066	4,744,273	2,439,446	3,184,853	4,522,949	5,845,623	3,376,634
19.3,19.4 Commercial auto liability	15,336,796	11,049,147	17,339,761	9,046,182	(2,312,685)	15,362,667	11,229,732	10,866,432	4,084,459
21. Auto physical damage	1,247	(10,920)	(21,422)	11,749	31,519	866,200	(43,410)	952,878	223,994
22. Aircraft (all perils)	47,566,090	4,488,907	46,982,831	5,072,166	2,635,045	2,440,443	4,104,046	6,043,608	1,724,811
23. Fidelity	12,741	410	6,304	6,847	101,486	(20,557)	42,496	45,280	30,645
24. Surety	32,445,145	19,599,083	18,936,974	33,107,254	(16,993,527)	(19,310,711)	(25,464,363)	22,267,379	2,292,576
26. Burglary and theft				0				0	985
27. Boiler and machinery		27	79,379	(79,352)	5,550	4,063	5	(69,744)	4,456
28. Credit	70		51	19	(266)		(274)	27	27,175
29. International				0				0	
30. Reinsurance - Nonproportional Assumed Property	XXX	661,857	144,195	517,662	XXX	(3,435,032)	(3,362,666)	445,296	(5,314)
31. Reinsurance - Nonproportional Assumed Liability	XXX	99,017,012	26,851,105	72,165,907	XXX	48,032,960	42,242,335	77,956,532	18,554,365
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	757,283,528	1,152,777,124	723,411,891	1,186,648,761	(4,780,604)	77,686	273,211,327	908,734,516	328,662,125
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.

10

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	(21,954,564)			(21,954,564)
1.2 Reinsurance assumed	(55,204,293)			(55,204,293)
1.3 Reinsurance ceded	(27,741,698)			(27,741,698)
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	(49,417,159)	0	0	(49,417,159)
2. Commission and brokerage:				
2.1 Direct, excluding contingent		112,136		112,136
2.2 Reinsurance assumed, excluding contingent		263,945		263,945
2.3 Reinsurance ceded, excluding contingent		65,987		65,987
2.4 Contingent-direct				0
2.5 Contingent-reinsurance assumed				0
2.6 Contingent-reinsurance ceded		24,217,896		24,217,896
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	(23,907,802)	0	(23,907,802)
3. Allowances to manager and agents				0
4. Advertising				0
5. Boards, bureaus and associations		(183,318)		(183,318)
6. Surveys and underwriting reports				0
7. Audit of assureds' records		713		713
8. Salary and related items:				
8.1 Salaries	5,863,378	29,804,554	207,086	35,875,018
8.2 Payroll taxes	406,687	1,572,965	9,925	1,989,577
9. Employee relations and welfare	681,256	947,239	21,427	1,649,922
10. Insurance		9,769,369		9,769,369
11. Directors' fees		129,227		129,227
12. Travel and travel items	63,476	116,727	1,752	181,955
13. Rent and rent items	308,521	3,889,784	3,912	4,202,217
14. Equipment	738	94,055		94,793
15. Cost or depreciation of EDP equipment and software		866,975		866,975
16. Printing and stationery	19,190	225,951	7,298	252,439
17. Postage, telephone and telegraph, exchange and express	26,571	620,851	9,049	656,471
18. Legal and auditing		9,850,602	1,117,150	10,967,752
19. Totals (Lines 3 to 18)	7,369,817	57,705,694	1,377,599	66,453,110
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$	36,644	1,762,664		1,762,664
20.2 Insurance department licenses and fees		364,885		364,885
20.3 Gross guaranty association assessments		36,644		36,644
20.4 All other (excluding federal and foreign income and real estate)		(251,162)		(251,162)
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)	0	1,913,031	0	1,913,031
21. Real estate expenses			129,484	129,484
22. Real estate taxes			50,034	50,034
23. Reimbursements by uninsured plans				0
24. Aggregate write-ins for miscellaneous expenses	11,074	22,245,243	624,367	22,880,684
25. Total expenses incurred	(42,036,268)	57,956,166	2,181,484	(a) 18,101,382
26. Less unpaid expenses - current year	328,662,125	54,483,970	30,800	383,176,895
27. Add unpaid expenses - prior year	488,494,066	67,768,232	132,454	556,394,752
28. Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29. Amounts receivable relating to uninsured plans, current year	0	0	0	0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	117,795,673	71,240,428	2,283,138	191,319,239
DETAILS OF WRITE-INS				
2401. All other	11,074	22,245,243	624,367	22,880,684
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)	11,074	22,245,243	624,367	22,880,684

(a) Includes management fees of \$ to affiliates and \$0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 15,694,197	14,173,949
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a) 42,913,229	40,272,819
1.3 Bonds of affiliates	(a) 0	
2.1 Preferred stocks (unaffiliated)	(b) 0	
2.11 Preferred stocks of affiliates	(b) 0	
2.2 Common stocks (unaffiliated)	1,830	1,830
2.21 Common stocks of affiliates	9,646,129	9,646,129
3. Mortgage loans	(c)	
4. Real estate	(d) 223,025	223,025
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 5,560,117	5,371,911
7. Derivative instruments	(f)	
8. Other invested assets	343,907	343,907
9. Aggregate write-ins for investment income	570,903	570,903
10. Total gross investment income	74,953,337	70,604,473
11. Investment expenses		(g) 2,181,484
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)
15. Aggregate write-ins for deductions from investment income		0
16. Total (Lines 11 through 15)		2,181,484
17. Net Investment Income - (Line 10 minus Line 16)		68,422,989
DETAILS OF WRITE-INS		
0901. Income from other sources	570,903	570,903
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))	570,903	570,903
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 \$ 3,576,895 accrual of discount less \$ 3,864,312 amortization of premium and less \$ 2,278,326 paid for accrued interest on purchases.
 (b) Includes \$ accrual of discount less \$ amortization of premium and less \$ 0 paid for accrued dividends on purchases.
 (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ paid for accrued interest on purchases.
 (d) Includes \$ for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
 (e) Includes \$ 1,639,703 accrual of discount less \$ 11,773 amortization of premium and less \$ 4,466 paid for accrued interest on purchases.
 (f) Includes \$ accrual of discount less \$ amortization of premium.
 (g) Includes \$ investment expenses and \$ investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
 (h) Includes \$ interest on surplus notes and \$ interest on capital notes.
 (i) Includes \$ depreciation on real estate and \$ depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5. Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. U.S. Government bonds	(2,635,461)		(2,635,461)		
1.1 Bonds exempt from U.S. tax			0		
1.2 Other bonds (unaffiliated)	(180)	95,691	95,511		
1.3 Bonds of affiliates	0	0	0	0	0
2.1 Preferred stocks (unaffiliated)	0	0	0	0	0
2.11 Preferred stocks of affiliates	0	0	0	0	0
2.2 Common stocks (unaffiliated)	14	0	14	512,643	0
2.21 Common stocks of affiliates	0	(1,011,865)	(1,011,865)	1,146,255	0
3. Mortgage loans			0		0
4. Real estate	(63,775)	(93,747)	(157,522)	0	0
5. Contract loans			0		0
6. Cash, cash equivalents and short-term investments	(4)		(4)		0
7. Derivative instruments			0		0
8. Other invested assets	1,989	708,084	710,073	(6,026,820)	0
9. Aggregate write-ins for capital gains (losses)	0	(663,400)	(663,400)	1,336,572	0
10. Total capital gains (losses)	(2,697,417)	(965,237)	(3,662,654)	(3,031,350)	0
DETAILS OF WRITE-INS					
0901. Change in deferred gain on investment transfers from subsidiaries			0	1,336,572	
0902. Realized F/X loss related to repatriation of Canadian branch assets		(673,400)	(673,400)		
0903. Other		10,000	10,000		
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	(663,400)	(663,400)	1,336,572	0

EXHIBIT OF NONADMITTED ASSETS

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks	0	0	0
2.2 Common stocks	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	0	0	0
3.2 Other than first liens	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company	0	0	0
4.2 Properties held for the production of income.....	0	0	0
4.3 Properties held for sale	0	0	0
5. Cash, (Schedule-E, Part 1), cash equivalents (Schedule-E, Part 2) and short-term investments (Schedule DA).....	0	0	0
6. Contract loans	0	0	0
7. Other invested assets (Schedule BA)	0	0	0
8. Receivables for securities	0	0	0
9. Aggregate write-ins for invested assets	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	0	0	0
11. Title plants (for Title insurers only).....	0	0	0
12. Investment income due and accrued	0	0	0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	16,958,242	26,509,816	9,551,574
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....	4,554,587	6,963,505	2,408,918
13.3 Accrued retrospective premium.....	621,400	920,264	298,864
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.....	705,046,187	701,689,527	(3,356,660)
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	16,075,512	29,747,423	13,671,911
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	743,255,928	765,830,535	22,574,607
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0	0
26. Total (Lines 24 and 25)	743,255,928	765,830,535	22,574,607
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.....	3,120,000	11,675,000	8,555,000
2302. Amounts receivable under high deductible policies.....	5,894,220	6,169,022	274,802
2303. Other admitted assets.....	7,061,292	11,903,401	4,842,109
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)	16,075,512	29,747,423	13,671,911

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Under administrative supervision by the Illinois Department of 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 2007 and 2006.

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, 2007 and 2006 reflects increases of \$400.4 million and \$453.9 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 thousands) Prescribed or Permitted Practices	December 31, 2007	December 31, 2006	Increase/ (Decrease)
Loss and LAE Reserve Discounting	\$ 299,656	\$ 378,769	\$ (79,113)
Prepaid ULAE	24,800	32,671	(7,871)
Provision for Uncollectible Reinsurance	46,854	(9,635)	56,489
Annuity Reinsurance Contracts	8,926	9,273	(347)
Subsidiary GAAP Financials	3,895	9,479	(5,584)
LBA & PDR Discounting	16,300	17,000	(700)
CIGA admitted asset	0	16,365	(16,365)
Retroactive Reinsurance Agreements	0	0	0
Total	\$ 400,431	\$ 453,922	\$ (53,491)

NOTES TO FINANCIAL STATEMENTS

1. **Loss and LAE Reserve Discounting.** Pursuant to a prescribed accounting practice, the Company discounts its loss and loss adjustment expense (“LAE”) reserves at 4.2% in the accompanying financial statements. Prior to 2003, the Company discounted at 3.5% (or the required statutory rate) only certain categories of liabilities on its statutory statements of admitted assets, liabilities and surplus (“balance sheet”), essentially the tabular discount on permanent total/lifetime benefit liabilities, pursuant to prescribed accounting practices (see Note 31). At December 31, 2007, the total amount of the tabular and non-tabular discount, included on the balance sheet and on Schedule P, was \$439.6 million; the total was \$531.9 million at December 31, 2006. With this prescribed practice, the Company’s reported surplus exceeded what its surplus would have been under the tabular discount by \$299.7 million at December 31, 2007 and \$378.8 million at December 31, 2006. The Company’s net effective yield on cash and invested assets for 2007 approximated the 4.2% discount rate (see Note 14 and 31). At December 31, 2007, the Company’s book yield on cash and invested assets was approximately 4.5%.
2. **Prepaid Unallocated Loss Adjustment Expense (“ULAE”).** Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2007 and 2006 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 \$24.8 million at December 31, 2007; the total was \$32.7 million at December 31, 2006. \$7.9 million of ULAE related to these two claim service providers was expensed in 2007 and \$12.3 million in 2006.
3. **Provision for Uncollectible Reinsurance.** Pursuant to a prescribed accounting practice, the Company established a general provision for uncollectible reinsurance, net of discount, of \$38.1 million at December 31, 2007 and \$55.0 million at December 31, 2006. The Schedule F penalty otherwise prescribed by the Manual would have been \$85.0 million at December 31, 2007 and \$45.4 million at December 31, 2006. 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 \$2.1 million at December 31, 2007 and \$10.3 million at December 31, 2006.
4. **Annuity Reinsurance Contracts.** Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2007 and 2006 reflects as admitted assets the estimated value of certain annuity reinsurance contracts issued by Washington National Insurance Company, which company is rated B+ (good) by A.M. Best. As reflected on the balance sheet, the annuity reinsurance contracts totaled \$13.4 million at December 31, 2007 and \$14.3 million at December 31, 2006. With this prescribed practice, the Company’s reported surplus exceeded what its surplus would have been by \$8.9 million at December 31, 2007 and \$9.3 million at December 31, 2006.
5. **Generally Accepted Accounting Principles (“GAAP”) Audited Financial Statements of Certain Subsidiaries.** For 2007 and 2006, the Division of Insurance granted a permitted practice allowing the Company to forego the requirement to obtain audited financial statements prepared on the basis of GAAP for certain of the Company’s non-insurance subsidiaries. At December 31, 2007 and 2006, such subsidiaries had a combined statement value (surplus) of \$3.9 million and \$9.5 million, respectively. The Company believes that the statutory carrying values of these subsidiaries approximate the carrying values that would be determined if audited GAAP statements were prepared.
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 \$16.3 million and \$17.0 million at December 31, 2007 and 2006, respectively.
7. **CIGA Admitted Asset.** Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2006 reflected as an admitted asset a receivable for certain refunds due the Company from the California Insurance Guarantee Association (“CIGA”). The receivable totaled \$16.4 million at December 31, 2006. The Company received the refunds from CIGA in 2007.
8. **Retroactive Reinsurance Agreements Treated as Prospective.** Certain of the Company’s reinsurance agreements entered into prior to 2003 were not reduced to signed written forms within the nine-month period required by the Manual and thus should have been accounted for as retroactive reinsurance. The Division of Insurance granted a permitted accounting practice to the Company for the 2007 and 2006 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.

NOTES TO FINANCIAL STATEMENTS

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 32, estimates of losses and LAE related to environmental and asbestos claims are also subject to a greater degree of uncertainty and variability. Policyholder dividend recalls (accrued retrospective premiums) 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 retrospectively based on the estimated timing and amount of prepayments of the underlying assets and is adjusted to reflect differences which arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated. To the extent the estimated lives of such securities change as a result of changes in prepayment rates, the adjustment is also included in investment income.

The Company defines cash and cash equivalents as cash in banks or short-term, highly liquid investments that are both readily convertible to cash and have original maturities of three months or less. The Company considers all other highly liquid investments with an original maturity of one year or less to be short-term investments.

Unaffiliated common 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. The Company's investment in its remaining overseas subsidiary at December 31, 2007 is recorded at fair value less estimated costs to sell.

Real estate owned is held for sale and is valued at the lower of its carrying amount or fair value less estimated costs to sell.

Other invested assets include notes receivable and joint venture interests. Notes receivable are carried at amortized cost, net of impairments. Joint ventures in which the Company has a less than 10% ownership interest are carried at the lower of cost after impairment writedowns or underlying GAAP equity. The Company's insurance company joint venture in Texas (see Note 10) in which the Company had a greater than 10% ownership interest at December 31, 2006 was 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 when it determines that the likelihood of collection of interest is doubtful.

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

NOTES TO FINANCIAL STATEMENTS

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 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.

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

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

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

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

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

None.

3. BUSINESS COMBINATIONS AND GOODWILL

None.

4. DISCONTINUED OPERATIONS

In 2007, the Company and Kemper International Corporation, a wholly owned subsidiary of the Company ("KIC"), entered into definitive agreements to sell their wholly owned Australian and Belgium subsidiaries. The two transactions were subject to regulatory approvals in Illinois and in the respective foreign jurisdictions. The proposed purchaser of the Australian subsidiary failed to obtain its necessary approvals in that country. The Australian subsidiary remains available for sale. The sale of the Belgium subsidiary was completed in late 2007. (See Note 10.)

5. INVESTMENTS

Fair values for cash equivalents, short-term investments, bonds, and unaffiliated 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 estimated prices obtained from yield data relating to instruments or securities with similar characteristics, or estimates of fair values determined in good faith by the Company's engaged portfolio manager.

Prepayment assumptions used for loan-backed securities are derived using an external securities information service and are consistent with the current interest rate and economic environment.

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

NOTES TO FINANCIAL STATEMENTS

At December 31, 2006, the Company classified its remaining real estate owned, an office/warehouse building in Lake Zurich, Illinois, as held for sale. The building was sold in 2007 for \$4.0 million with the Company recording a \$158 thousand realized loss.

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 gain on the sale and investment income of \$26 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.

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, 2007.

8. DERIVATIVE INSTRUMENTS

None.

NOTES TO FINANCIAL STATEMENTS

9. INCOME TAXES

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

	December 31, 2007	December 31, 2006
	(in thousands)	
Total gross deferred tax assets	\$ 710,429	\$ 704,530
Total deferred tax liabilities	(5,383)	(2,840)
Net deferred tax asset	705,046	701,690
Deferred tax asset nonadmitted	(705,046)	(701,690)
Net admitted deferred tax asset	0	\$ 0
Increase in nonadmitted asset	\$ (3,356)	

All deferred tax liabilities were recognized.

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

	December 31, 2007	December 31, 2006
	(in thousands)	
Federal	\$ (3,033)	\$ (28,438)
Foreign	0	12
Federal and foreign income taxes incurred	\$ (3,033)	\$ (28,426)

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, 2007	December 31, 2006
	(in thousands)	
Deferred tax assets:		
Loss carryforwards	\$ 592,135	\$ 563,767
Investments	41,693	37,546
Receivables	27,365	41,545
Accrued liabilities	19,447	24,064
Reserves	9,090	15,061
Section 197 intangibles	7,953	9,011
Other	12,746	13,536
Total deferred tax assets	710,429	704,530
Nonadmitted deferred tax assets	(705,046)	(701,690)
Admitted deferred tax assets	5,383	2,840
Deferred tax liabilities:		
Investments	(4,547)	(1,239)
Salvage and subrogation	(836)	(1,601)
Total deferred tax liabilities	(5,383)	(2,840)
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, 2007	December 31, 2006	Change
	(in thousands)		
Total deferred tax assets	\$ 710,429	\$ 704,530	\$ 5,899
Total deferred tax liabilities	(5,383)	(2,840)	(2,543)
Net deferred tax asset	\$ 705,046	\$ 701,690	3,356
Tax effect of unrealized gains (losses)			0
Changes in net deferred income tax			\$ 3,356

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, 2007
	(in thousands)
Provision computed at statutory rate	\$ (24,822)
Receivables	13,175
Reserves	2,769
Loss carryforwards	(716)
Other	3,205
Total	\$ (6,389)
Federal and foreign income taxes incurred	\$ (3,033)
Change in net deferred income taxes	(3,356)
Total statutory income taxes	\$ (6,389)

At December 31, 2007, the Company had \$1,667.2 million of operating loss carryforward which originated and expires as follows:

Origination Year	Expiration Year	Amount
		(in thousands)
2000	2020	\$ 179,079
2001	2021	\$ 404,748
2002	2022	\$ 38,885
2003	2023	\$ 211,668
2004	2024	\$ 399,689
2005	2025	\$ 177,705
2006	2026	\$ 178,657
2007	2027	\$ 76,744

At December 31, 2007, the Company had \$24.2 million of capital loss carryforward which originated in 2004 and expires in 2009.

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

Tax returns for the years through 2003 are closed for Internal Revenue Service ("IRS") examination. The Company is not currently under examination by the IRS for any open tax years.

The Company files as part of a consolidated Federal income tax return which includes the Company as the common parent corporation and includes or included the following affiliated entities: American Motorists Insurance Company ("AMICO"), AMICO Realty Corporation ("AMICO Realty"), American Underwriting Corporation, Kemper Casualty Insurance Company ("KCIC"), Kemper International Corporation, Kemper Insurance Company of Texas, 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, and Universal Bonding Holding Company, Inc.

NOTES TO FINANCIAL STATEMENTS

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 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. Common stock 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 American Manufacturers Mutual Insurance Company ("AMM"), an affiliated mutual insurance company that shares common management and directors with the Company, is further described in Note 25.

Significant Affiliate and Former Affiliate Transactions in 2007 and 2006

Kemper Insurance Company of Texas

Effective November 30, 2007, a Texas-domiciled affiliate previously organized as a joint venture under Texas statutory provisions for Lloyds plan operations and historically controlled by officers and employees of the Company, Kemper Lloyds Insurance Company, converted into a wholly owned subsidiary of the Company. In connection with the conversion, the subsidiary changed its name to Kemper Insurance Company of Texas ("KICT"). Following the conversion, in late 2007, KICT paid to the Company a cash dividend of approximately \$20.5 million. See "Return of Capital and Income Dividends" below.

Premium Tax Credits

At December 31, 2006, 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, Inc. ("Unitrin") in February 2007. The Company also sold \$370 thousand of its credits to four affiliates, who collectively paid the Company in February 2007, as follows: AMM, \$28 thousand; AMICO, \$119 thousand; KCIC, \$14 thousand; and KICT, \$209 thousand. The sales together added approximately \$4.6 million to the Company's 2007 net income, surplus, and liquidity.

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"), extended a reinsurance agreement, effective December 31, 2007 for a three-year period (2008, 2009, and 2010), facultatively reinsuring a corresponding three-year A-side management liability policy issued by an unaffiliated third party to the Company and AMM. SSIC maintains in a trust the \$15.0 million reinsurance premium it received from its affiliates for the benefit of the third-party insurer to collateralize the reinsurance obligation. The Company's income, surplus, and liquidity were unchanged by the extension except to the extent of a \$275 thousand administrative fee paid to the unaffiliated third party in 2008.

Broadspire Transaction and Claim Handling

In July 2003, the Company sold its NATLSCO, Inc. subsidiary and related claim service operations (together subsequently renamed "Broadspire"). Certain purchase price adjustment provisions from the 2003 sale agreement 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

NOTES TO FINANCIAL STATEMENTS

earn-out. In an 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 an eight-year period beginning January 1, 2004. The Company was not obligated to add any assets to the trust. At December 31, 2007, the amount remaining in this trust was \$12.3 million. 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 \$17.4 million as of December 31, 2007 and \$23.2 million as of December 31, 2006.

UBIC Merger

During 2006, Universal Bonding Insurance Company ("UBIC"), then the Company's indirectly wholly owned, New Jersey-domiciled, subsidiary, merged into one of the Company's wholly owned Illinois-domiciled subsidiaries, 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 was 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 in 2006 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.

Kemper Auto & Home: Renewal Rights and Cut-Through

Following the sale in 2002 of the Company's and its affiliates' U.S. personal lines business to Unitrin and its subsidiaries including Trinity Universal Insurance Company ("Trinity"), Unitrin operates this business with a 100-year license to use the Kemper name in personal lines. Unitrin did not acquire then in-force or previously issued policies nor renewal rights to policies issued in Alaska, Michigan, Delaware, or Arkansas or to policies produced by independent agents whose authority to write new business had been terminated prior to April 19, 2002. Pursuant to the 2002 sale agreement, Unitrin continues to monitor and service the Company's run-off of its retained personal lines policies. Through early 2005, the Company and certain of its affiliates fronted for Trinity, at Trinity's expense, personal lines policies in states where Trinity (or an affiliate) was seeking licenses and making form and rate filings necessary for the issuance of policies in place of renewals of policies originally issued by the Company or its affiliates. As of December 31, 2007 and 2006, respectively, approximately \$13.1 million and \$27.0 million of the Company's gross liabilities (including unallocated LAE) were from fronted policies that are 100% reinsured by (ceded to) Unitrin. Not only are these reinsured policies fully administered (including claims handled) by Unitrin subsidiaries, such policies are covered by a cut-through provision allowing the insureds to seek direct recourse to a Unitrin subsidiary in the event of any insolvency of the Company.

Berkshire Cut-Through; Bond Facility; Claims Handling

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

NOTES TO FINANCIAL STATEMENTS

result of its insolvency or a court or regulatory order prohibiting claim payments due to the issuing company's financial condition.

As an agreed condition for NICO to provide the cut-through agreements, the Company and its affiliates immediately provided collateral available to NICO if and to the extent NICO makes any payments under any cut-through agreements. The collateral includes offset rights granted to NICO for reinsurance proceeds payable by either NICO or its affiliate, National Fire & Marine Insurance Company ("National Fire"), to the Company or its affiliates; a collateral trust initially in an amount of \$251.1 million as of the end of June 2003, which amount was subject to quarterly reductions by payments of claims (losses and LAE) and mid-term cancellations of policies (the trust amount decreased to zero in the third quarter of 2006); and investments of \$257.3 million in Berkshire corporate obligations (Schedule D admitted assets) which the Company pledged as security to Berkshire. The Berkshire corporate obligations were reduced to \$226.6 million by year-end 2007, with cash in the amount of the reduction released to the Company in accordance with existing agreements. The investments were further reduced in early 2008, by approximately \$29.6 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. 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, 2007 and 2006, respectively, \$50.9 million and \$80.6 million of the Company's gross policy liabilities (including unallocated LAE) were protected by the NICO cut-through. (Note 22 and Schedule F show that the Company cedes to the Berkshire Hathaway Group (group 31) liabilities totaling \$205.9 million at December 31, 2007. Portions of that amount also serve 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, 2007 and 2006, respectively, the Company pledged \$20.6 million and \$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 prepaid for the future servicing of such claims. In accordance with a prescribed accounting practice more fully described in Note 1, the Company reflects as an admitted asset the remaining prepaid amount for such claim handling services; that amount has declined to approximately \$7.4 million at December 31, 2007 and \$9.4 million as of December 31, 2006.

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 \$3.5 million and \$5.2 million at December 31, 2007 and 2006, respectively; the decrease in 2007 was due to a release of assets reflecting revised actuarial calculations of the secured liabilities, in accordance with the existing 2003 agreements. SeaBright also provides, for agreed fees, certain claim handling services with respect to approximately 500 claims (accounting for \$24.8 million of net liabilities at December 31, 2007) under policies issued by the Company's Eagle insurance operations prior to the 2003 sale of KEIC. (The Eagle operations merged into the Company's AMICO subsidiary in 2004.)

Canada Branch Office

Located in Toronto and also in run-off since early 2003, the Company's Canadian branch contributed \$1.0 million to the Company's statutory net income in 2007, primarily due to net investment income in excess of expenses. The branch had 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.

Assets of the Company's Canadian branch, reflected in the Company's balance sheet, totaled \$45.5 million at December 31, 2007, down from \$48.0 million at December 31, 2006. The Company repatriated \$11.0 million in 2007 and \$2.2 million in 2006. Part of the decline in Canadian assets in 2007 was offset by a stronger Canadian dollar which contributed approximately \$5.0 million to the reported assets. Most of the remaining assets of the branch in Canada are encumbered in trust (see

NOTES TO FINANCIAL STATEMENTS

Note 14). Canadian regulatory approvals are required for any releases of assets from the trust, including releases to pay Canadian claims and expenses.

The Company's Canadian branch accounted for approximately \$24.5 million, or 16.3%, of the Company's statutory surplus at December 31, 2007, down from \$30.1 million, or 17.3%, at December 31, 2006. The decline in surplus accounted for by the branch was primarily due to repatriations of cash from the branch to the U.S. home office during 2007.

Other International Operations

The Company's other international operations at year-end 2007 consisted of an Australian subsidiary and the Canadian branch of AMICO. Both of those operations have been in run-off in their respective jurisdictions for more than 10 years. After a write-down of the Company's investment in Australia by approximately \$1.0 million to reflect anticipated net proceeds from an ultimately unsuccessful sale transaction in 2007, the Australian subsidiary accounted for \$1.9 million, or 1.3%, of the Company's surplus at December 31, 2007. The Company has guaranteed most policies issued in Australia (see Note 14), and the Company also reinsures most of those policies for any losses excess of \$50 thousand. The Australian subsidiary remains available for sale. AMICO's Canadian branch accounted for \$1.3 million of the Company's surplus at December 31, 2007. The Company anticipates liquidation and closure of the branch in the first quarter of 2008, with repatriation to the U.S. of cash in the same amount as its surplus.

During 2007 and 2006, the other international operations also included three other foreign insurance company subsidiaries, one in Belgium, which was sold in late 2007, and one in each of Bermuda and Singapore, the liquidations and closures of which were completed with no impact on income or surplus in 2006. The sale, prior operations, and closures of the Belgium, Bermuda, and Singapore operations produced a net loss (and adverse surplus impact) to the Company totaling \$1.8 million in 2007, reflecting a realized loss on the sale of the Belgium subsidiary, compared with net income (and positive surplus impact) of approximately \$200 thousand in 2006, primarily reflecting a stronger Euro and the Belgium subsidiary's net investment income.

The Company received net cash from the other international operations totaling \$1.0 million in 2007 and \$6.1 million in 2006. In addition, the 2007 sale of the Belgium subsidiary was accompanied by commutation of all intercompany reinsurance, releasing the Company from any future liability to the subsidiary for any outstanding claims and any adverse development, and in connection therewith, the purchaser of the subsidiary agreed to indemnify the Company in the event of any claims against the Company under the subsidiary's policies that have been issued by the subsidiary and covered by a parental guaranty by the Company since 2001. (See Note 14.)

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, which holds other notes and related real estate investments. The notes had been valued at zero by the Company at the date of contribution, and therefore the transfer to AMICO Realty resulted in no change to either the value of the assets carried on the Company's balance sheet or the Company's surplus.

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.

NOTES TO FINANCIAL STATEMENTS

The Company recorded return of capital and income dividends from the following wholly owned subsidiaries during 2007 and 2006:

	2007	2006
	(in thousands)	
KICT ¹	\$20,475	\$ 0
KCIC ²	20,000	0
SSIC ³	6,500	10,000
AMICO ⁴	4,020	5,009
KIC	904	536
American Underwriting Corporation	0	432
LGA-17, Inc.	64	140
Total	\$51,963	\$16,117

¹KICT's Board of Directors approved a \$14,324 thousand return of capital dividend and a \$6,151 thousand income dividend payable December 5, 2007, to the Company.

²KCIC's Board of Directors approved a \$20,000 thousand return of capital dividend payable December 28, 2007, to the Company.

³SSIC's Board of Directors approved a \$4,380 thousand return of capital dividend and a \$2,120 thousand income dividend payable December 28, 2007, to the Company. SSIC's Board of Directors also approved a \$3,286 thousand return of capital dividend and a \$6,714 thousand income dividend payable December 29, 2006, to the Company.

⁴AMICO's Board of Directors approved a \$2,645 thousand return of capital dividend and a \$1,375 thousand income dividend payable December 28, 2007, to the Company. AMICO's Board of Directors also approved a \$4,973 thousand return of capital dividend and a \$36 thousand income dividend payable December 29, 2006, to the Company.

Intercompany Transactions

The Company reported the following amounts due from (to) affiliates at December 31, 2007 and 2006:

Affiliate	December 31, 2007	December 31, 2006
	(in thousands)	
AMICO	\$ (510)	\$ (636)
AMM	60	74
SSIC	(660)	3,698
KCIC	648	71
KICT	2	3
All other affiliates	(30)	0
Total (payable)/receivable to/from affiliates	\$ (490)	\$ 3,210

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 recognized an impairment writedown of \$3.7 million as a realized capital loss for its investment in KIC during 2007. The impairment was due to the sale of KIC's Belgium subsidiary and the anticipated sale of KIC's Australian subsidiary.

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

11. DEBT

None.

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

A. Defined Benefit Plan

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

NOTES TO FINANCIAL STATEMENTS

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

B. Defined Contribution Plans

Profit Sharing Plan

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

Retention Plans

The Company's workforce decreased to 261 employees at December 31, 2007, from 274 employees at December 31, 2006, and 284 at December 31, 2005. To help stabilize the workforce, the Company maintains a retention plan providing for scheduled quarterly payments. The retention payments for 2007 and 2006 totaled \$5.0 million and \$4.7 million, respectively.

Incentive Plans

The Company has maintained since 2004 an annual incentive plan linked to successfully achieving or exceeding certain targets as anticipated from time to time in the Company's run-off plan (the "Short-Term Plan"). In addition to the Short-Term Plan, the Company, with final approval from the Division in 2006, established a long-term incentive plan linked to the successful maintenance of the commercial run-off as anticipated in the Company's run-off plan. The Company has accrued approximately \$4.2 million and \$6.2 million under the incentive plans at December 31, 2007 and 2006, respectively. Incentive plan payments totaled \$8.8 million in 2007 and \$3.6 million in 2006.

Restricted Stock, Other Deferred Compensation, and Stock Option Plans

The Company carried deferred compensation liabilities of approximately \$0.3 million at December 31, 2007 and \$1.3 million at December 31, 2006.

Postretirement Benefits

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

C. Multiemployer Plans

None.

D. Consolidated/Holding Company Plans

None.

E. Postemployment Benefits and Compensated Absences

The Company maintains an employee severance program which provides a maximum benefit of up to one year of salary depending on the level of an employee and service time with the Company. Severance liabilities are not reflected on the Company's balance sheet until a decision is reached that a specific employee or group of employees is to be terminated without cause. Severance payments in 2007 and 2006 totaled \$0.3 million and \$0.8 million, respectively, and severance liabilities recorded at December 31, 2007 and 2006 totaled \$0.5 million and \$0.5 million, respectively. In 2006, with the approval of the Division of Insurance, the Company made a one-time deposit encumbering \$4.75 million in a long-term retention trust to secure its contingent severance obligations.

The Company provides medical benefits to employees on long-term disability. The obligation under this plan was \$1.1 million and \$1.8 million as of December 31, 2007 and 2006, respectively.

F. Impact of Medicare Modernization on Postretirement Benefits

None.

NOTES TO FINANCIAL STATEMENTS

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

At December 31, 2007, unassigned surplus included unrealized capital gains of \$29.8 million including unrealized foreign exchange capital gains of \$0.2 million.

The Company had the following surplus notes issued and outstanding at December 31, 2007:

<i>Amounts in thousands</i>							
Interest Rate/ Description	Issue Date	Maturity Date	Par or Face Value	Carrying Value of Surplus Notes	Interest Paid 2006-2007	Total Interest Paid	Accrued Interest 12/31/07
9.15% 30-Year Notes	06/24/96	07/01/2026	\$400,000	\$399,123	\$ 0	\$238,612	\$ 0
8.30% 40-Year Notes	11/21/97	12/01/2037	200,000	199,507	0	83,461	0
8.45% 100-Year Notes	11/21/97	12/01/2097	100,000	99,726	0	42,485	0
Total			\$700,000	\$698,356	\$ 0	\$364,558	\$ 0

The unamortized discount at issuance has been charged directly against surplus. The unamortized discount amounted to \$1.6 million at December 31, 2007 and 2006.

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. As it relates to the surplus notes, the Company is not restricted from incurring any future indebtedness, policy claims or prior claims. Under statutory accounting principles, the surplus notes are part of surplus for financial statement purposes. The 30-Year notes and the 40-Year notes may not be redeemed at the option of the Company or any holder of the notes prior to maturity. Upon the occurrence and during the continuation of certain events, the Company has the right, if certain conditions are met, to shorten the maturity of the 100-Year notes, or subject to the prior written approval of the Director, to redeem them in whole but not in part.

Each payment of interest on and/or repayment of principal of the surplus notes may be made only with the prior approval of the Director, 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. The Director has denied the Company's 2007 and 2006 requests for payment of interest on the surplus notes due on June 1 and July 1 and on December 1 and January 1 (see Note 14). All payments of interest scheduled since January 1, 2003 have not been paid due to disapprovals by the Director based on the Company's financial condition. The cumulative amount of interest that was scheduled to be paid but is unpaid, plus the amount otherwise accruing in 2007 for which scheduled interest payment dates have not yet arrived, totaled \$310.3 million as of December 31, 2007. In accordance with statutory accounting principles, this total amount is not reflected as a liability on the Company's statutory balance sheet as of December 31, 2007.

14. CONTINGENCIES

A. Contingent Commitments

Affiliate and Other Guarantees

The Company has provided guarantees of certain policy liabilities of its Australian and former Belgium subsidiaries, has issued its own policies to most policyholders of AMM, and has intercompany balances due certain affiliates. (See Note 10.) The Company is contingently liable for \$365.0 million related to structured settlement annuities. (See Note 26.)

Securities on Deposit/Encumbered Assets

Of the Company's cash and invested assets at December 31, 2007, \$722.0 million are encumbered by being on deposit or held in trust or escrow arrangements, compared with \$908.3 million one year earlier, as shown in the following table:

NOTES TO FINANCIAL STATEMENTS

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Special Deposits/Encumbered Assets:	<u>(In thousands)</u>	
State Deposits	\$ 411,310	\$ 560,320
NICO Cut-Through Collateral	226,631	246,866
NICO Appeal Bond Collateral	20,581	26,210
Canada Deposits	33,700	44,097
All Other	<u>29,800</u>	<u>30,853</u>
	722,022	908,346
Unencumbered Assets:		
Cash and Bonds	576,583	616,997
Affiliate Common Stock	59,677	85,535
Other Assets	<u>8,940</u>	<u>35,328</u>
	645,200	737,860
Cash and Invested Assets	<u>\$1,367,222</u>	<u>\$1,646,206</u>

The Company received releases of encumbered assets from states totaling \$149.0 million and \$132.9 million during 2007 and 2006, respectively. Releases reflect lower levels of liabilities of the Company that the state deposits have historically secured. There can be no assurance that there will be additional releases.

Where required to post court bonds, including supersedeas or appeal bonds, or when using surety bonds to satisfy state deposit requirements, the Company, due to its financial condition, has had to post cash or other security totaling 100% of the bond. At December 31, 2007 and 2006, the Company had pledged invested and other assets of \$21.8 million and \$27.5 million, respectively, for such bonds, most of which are issued by NICO. (See Note 10.)

Of the Company's invested assets at December 31, 2007, \$226.6 million provide collateral for Berkshire affiliates related to the NICO cut-through agreements. (See Note 10.) This amount reflects a \$20.2 million reduction from a year earlier. Of the cut-through encumbered assets at December 31, 2007, \$126.6 million are subject to release to the Company annually as claim payments are made on policies to which the NICO cut-through agreements are attached so long as NICO is not required to pay any amounts on Kemper policies that have the benefit of cut-through agreements.

The Company is contingently liable to provide up to an estimated additional \$15.8 million in collateral due to ratings triggers in reinsurance agreements where it is a reinsurer. Of this amount, \$4.9 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 \$96.2 million at December 31, 2007. Alea also has handled claims on behalf of the Company since 1999 on both the fronted liabilities and, at December 31, 2007, \$38.8 million of other assumed reinsurance liabilities written by the Company from 1997 through 1999. The Company is dependent on Alea for the claim handling and its related accounting.

In addition to the encumbrances applicable to the Company's cash and invested assets which are reflected in the preceding table and in Schedule E, Part 3, Special Deposits, the Company has certain reinsurance related assets which have been pledged or otherwise encumbered. Such encumbered assets include funds held by or deposited with reinsured companies (\$11.6 million, as shown on line 14.2 on the Company's balance sheet at December 31, 2007), 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

NOTES TO FINANCIAL STATEMENTS

1999 (\$2.6 million at December 31, 2007). 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 \$93.3 million at December 31, 2007.

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 2007 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, 2007. As of December 31, 2007 and 2006, respectively, the Company accrued \$2.7 million and \$3.2 million for such guaranty fund assessments. The Company also established a liability for premium and loss based assessments of \$34.4 million as of December 31, 2007, compared with approximately \$39.0 million as of December 31, 2006.

C. Gain Contingencies

None.

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

The amounts paid by the Company for claims related to extra contractual obligation lawsuits and bad faith lawsuits during the reporting period are not considered material in relation to the financial condition of the Company.

E. All Other Contingencies

Ratings

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

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

Risk-Based Capital and Risk of Insolvency

The NAIC utilizes a risk-based capital ("RBC") formula intended for regulatory monitoring of property-casualty insurers. Under RBC rules in Illinois, state regulators may mandate remedial action for inadequately capitalized companies. The focus of the capital rules is a risk-based formula that applies prescribed factors to various risk elements in an insurer's business and investments to develop a minimum capital requirement designed to be proportional to the amount of risk assumed by the insurer. For the last four years (and for 2007 and 2006 excluding the benefit of prescribed and permitted accounting practices), the Company's level of surplus has been at the "mandatory control level" under the RBC rules. At this level, the 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.

NOTES TO FINANCIAL STATEMENTS

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 RBC 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 three years as overall liabilities also declined); to complete other surplus-enhancing transactions; to commute certain reinsurance agreements; to complete other liquidity-enhancing transactions; to hire and retain the staff and resources necessary to implement the plan; to further reduce expenses; and to consummate agreements with regulators and other third parties. Achieving the surplus and liquidity projections in the run-off plan requires the consummation of agreements with insureds for policy buybacks and novations; the timely performance of payment and other contractual obligations owed to the Company by various third parties, including reinsurers as well as insureds and agents; agreements with regulators in various jurisdictions; and the absence of significant additional disputes not only with reinsurers but also with creditors, including insureds and certain states, which could involve judicial or other actions to seek either to force the Company to collateralize its unsecured obligations or to not timely release collateral back to the Company. Therefore, no assurance can be given that the run-off plan will continue to be successfully implemented.

The 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 five 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 run-off 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, in 2005, the Company agreed to its license being suspended in Tennessee, with the Company permitted to maintain its licenses but not permitted to write any new business. In 2006, the Company appealed its license suspension in the State of North Carolina as not being in the best interests of the Company's policyholders or claimants. In 2007, the Florida Office of Insurance Regulation notified the Company that its license (certificate of authority to conduct insurance business in Florida) expired by operation of law due to the prior suspension of the license in 2004 (after the Company had entered run-off status). The license is not required for the Company to continue to handle claims, or to liquidate assets or liabilities, from its prior operations.

Surplus Considerations

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 \$6.0 million per month. In addition, reflecting the durations and interest rates of the Company's existing fixed income portfolio, current market conditions, and the Company's anticipated liquidity needs, the Company's net effective yield on its cash and invested assets in 2007 approximated 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.A.).

In each of 2007 and 2006, the Company successfully executed surplus-enhancing transactions and operational improvements that together produced benefits to surplus that partially offset the reduction in surplus caused by expenses exceeding revenues and by additions to loss and LAE reserves. Although involving use of liquidity (see *Liquidity Considerations* below), policy buybacks 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.

In 2007 and 2006, the Company's surplus benefited by \$15.0 million and \$12.6 million, respectively, due to collections of both (i) previously non-admitted premiums in collection and (ii) other policy related assets, in both cases in excess of write-offs and writedowns of similar admitted assets.

NOTES TO FINANCIAL STATEMENTS

At December 31, 2007, the Company's balance sheet shows that its assets exceed its liabilities by \$150.7 million, a \$22.9 million decrease in surplus from the level reported one year earlier. The Company's surplus at year ends 2007 and 2006 reflected certain one-time, surplus-enhancing, events. If the Company is unable to maintain adequate levels of statutory surplus, which under the run-off plan requires the continuous generation of surplus from transactions to offset the monthly surplus diminution from operating expenses and loss 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 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 2007, policy buybacks, novations, and assumed reinsurance commutations collectively added approximately \$24.4 million to the Company's surplus, for a net decrease in liquidity of approximately \$6.9 million. In 2006, they added approximately \$22.7 million to surplus for a benefit to liquidity of approximately \$47.9 million. Buybacks, novations, and assumed reinsurance commutations resulted in the Company's gross and net loss and LAE reserves declining by approximately \$65.6 million and approximately \$45.4 million, respectively, in 2007 and by approximately \$155.1 million and approximately \$8.5 million, respectively, in 2006. Combined with other transactions as well as normal claim payments and other settlements, including certain other reinsurance commutations, the Company's total nominal gross and net discounted loss and LAE reserves were \$2.8 billion and \$1.2 billion, respectively, at December 31, 2007, compared with \$3.6 billion and \$1.6 billion, respectively, at December 31, 2006.

Liquidity Considerations

As a run-off company, the Company's cash outflows exceed its cash inflows. There are a number of factors that could adversely affect the Company's liquidity position and its adequacy. Accelerated claim payments or imposition of requirements to secure future obligations by court order or otherwise, deterioration of reinsurance collections, increases in operating expenses, and other unanticipated strains on liquidity could cause the Company to have insufficient liquid and unencumbered assets to continue to pay obligations as they become due. As liquidity declines, there can be no assurance that formal proceedings would not be initiated by the Division of Insurance significantly before the Company's projected liquidity would reach zero. The Company's reported approximately \$645.2 million of unencumbered assets at December 31, 2007 shown in the table under *Securities on Deposit/Encumbered Assets* above in this Note 14 includes approximately \$99.3 million that, although unencumbered, are not necessarily immediately available funds, as this amount consists of such items as assets held in subsidiaries and working capital requirements.

The Company is addressing potential future liquidity challenges by taking a number of actions, including, but not limited to, seeking the release of what the Company believes is excess collateral held by various governmental agencies, merging or dissolving subsidiaries, converting illiquid assets to liquid assets, negotiating liquidity-enhancing novations, continuing to collect on its reinsurance, and evaluating the possibility of, and implementing certain, reinsurance commutations. The Company's run-off plan anticipates that portions of state deposits will continue to be released 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 the Company during 2007 converted its Texas Lloyds affiliate into a stock subsidiary, sold its Belgium subsidiary, and dissolved six 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 \$446 million of liquidity to the Kemper Insurance Companies during 2007 and approximately \$800 million during 2006. The Company's gross reinsurance recoverables totaled \$1.3 billion at December 31, 2007, down from \$1.6 billion at December 31, 2006.

The Company recognizes the general principle that commutations of ceded reinsurance, if executed, could substantially increase liquidity. Reinsurance commutations, however, would also

NOTES TO FINANCIAL STATEMENTS

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.

15. LEASES

The Company leases office space and equipment under various non-cancelable operating lease agreements. Rental expense for 2007 and 2006 was \$4.3 million and \$4.2 million, respectively.

At December 31, 2007, the total aggregate minimum rental payments on operating leases is \$6.3 million, and future minimum rental payments for the next three years are as follows:

Year Ending December 31	Minimum Payments (in thousands)		
2008		\$ 3,505	
2009		2,296	
2010		474	
2011 and thereafter		0	
		\$ 6,275	

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.

NOTES TO FINANCIAL STATEMENTS

20. OTHER ITEMS

The Company defines its exposure to subprime mortgage related risk as being composed of all fixed income securities primarily backed by mortgage pools with the following characteristics calculated on a weighted average basis:

- First lien mortgages where borrowers have FICO scores less than 650
- First lien mortgages with loan-to-value ratios greater than 95%
- Second lien mortgages where borrowers have FICO scores less than 675
- Borrowers with less than conventional documentation of their income and/or net assets and FICO scores less than 650

At December 31, 2007, the Company's subprime exposure includes only residential mortgage-backed securities owned by the Company and its subsidiaries as summarized below (in thousands):

	Cost	Book/Adjusted Carrying Value	Fair Value
Company investments	\$13,910	\$13,901	\$12,414
Subsidiary investments	1,002	1,000	798
Total	\$14,912	\$14,901	\$13,212

The Company did not recognize any other-than-temporary impairment losses during 2007 related to subprime mortgages and does not expect losses, related to its subprime exposure summarized above, due to potential sales to meet future cash flow requirements.

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

21. EVENTS SUBSEQUENT

None.

NOTES TO FINANCIAL STATEMENTS

22. REINSURANCE

A. Unsecured Reinsurance Recoverables

The Company has unsecured aggregate recoverables from unaffiliated reinsurers for losses and LAE paid and unpaid including IBNR, and unearned premium that exceed 3% of the Company's policyholder surplus at December 31, 2007, with the following reinsurers (and related group members):

FEIN CODE	NAIC GROUP #	NAIC CODE	REINSURER	AGGREGATE RECOVERABLE
				(in thousands)
36-0719665	8	19232	Allstate Insurance Co.	\$ 10,721
36-3976913	8	10071	Encompass Insurance Co. of America	450
			8 Group Total	11,171
13-5124990	12	19380	American Home Assurance Co.	35
06-0384680	12	11452	Hartford Steam Boil Inspection & Insurance Co.	(276)
13-5540698	12	19429	Insurance Co. of the State of Pennsylvania	4
25-0687550	12	19445	National Union Fire Insurance Co. of Pittsburgh	1,460
13-5616275	12	19453	Transatlantic Reinsurance Co.	13,332
			12 Group Total	14,555
06-1325038	31	39136	Converium Reinsurance North America, Inc.	95,159
13-2673100	31	22039	General Reinsurance Corp.	35,074
47-6021331	31	20079	National Fire & Marine Insurance Co.	75,123
13-1988169	31	34835	National Reinsurance Corp.	507
			31 Group Total	205,861
38-0855585	79	22012	Motors Insurance Corp.	5,139
			79 Group Total	5,139
47-0574325	98	32603	Berkley Insurance Co.	18,774
53-0067060	98	21784	Firemen's Insurance Co. of Washington D.C.	565
41-1232071	98	31003	Tri State Insurance Co. of Minnesota	559
			98 Group Total	19,899
39-0264050	111	21458	Employers Insurance of Wausau	5,401
04-1543470	111	23043	Liberty Mutual Insurance Co.	(98)
			111 Group Total	5,303
13-2781282	158	25070	Clearwater Insurance Co.	12,724
23-2745904	158	10019	Clearwater Select Insurance Co.	6,403
47-0698507	158	23680	Odyssey America Reinsurance Co.	4,379
13-3306163	158	19160	Old Lyme Insurance Co. of RI Inc.	429
			158 Group Total	23,936
48-0921045	181	39845	Employers Reinsurance Corp.	36,866
06-0839705	181	82627	Swiss Reinsurance Life & Health America Inc.	5,775
13-1675535	181	25364	Swiss Reinsurance America Corp.	206,280
13-1941868	181	34207	Westport Insurance Corp.	240
			181 Group Total	249,160

NOTES TO FINANCIAL STATEMENTS

FEIN CODE	NAIC GROUP #	NAIC_ CODE	REINSURER	AGGREGATE RECOVERABLE (in thousands)
75-0620550	215	19887	Trinity Universal Insurance Co.	\$ 13,225
13-5460208	215	25909	Unitrin Preferred Insurance Co.	603
			215 Group Total	13,829
36-2114545	218	20443	Continental Casualty Co.	17,578
13-5010440	218	35289	Continental Insurance Co.	533
			218 Group Total	18,110
41-0451140	229	67105	Reliastar Life Insurance Co.	65,305
			229 Group Total	65,305
13-4924125	361	10227	Munich Reins America, Inc.	124,529
			361 Group Total	124,529
95-2371728	626	22667	Ace American Insurance Co.	3,108
06-0237820	626	20699	Ace Property & Casualty Insurance Co.	4,314
23-0723970	626	22713	Insurance Co. of North America	14,311
			626 Group Total	21,733
03-0331391	749	27955	Commercial Risk Re-Insurance Co.	4,714
13-3029255	749	39322	General Security National Insurance Co.	4,302
75-1444207	749	30058	SCOR Reinsurance Co.	19,581
			749 Group Total	28,597
13-2997499	1129	38776	Folksamerica Reinsurance Co.	7,531
			1129 Group Total	7,531
41-6009967	3548	24015	Northland Insurance Co.	407
41-0406690	3548	24767	St. Paul Fire & Marine Insurance Co.	5,525
06-0566050	3548	25658	Travelers Ind Co.	534
52-0515280	3548	25887	US Fidelity & Guaranty Co.	1,182
			3548 Group Total	7,649
AA-3770114			Affinity 500 Insurance Ltd.	5,407
AA-3190800			Alea (Bermuda), Ltd.	132,332
AA-9995013			Associated Aviation Underwriters	104,361
87-0439248		10547	Beryl Amer. Corp.	11,227
AA-3190433			Commercial Risk Reinsurance Co. Ltd.	8,562
AA-9995022			Excess and Casualty Reinsurance Assn.	17,949
AA-3770136			Haul Insurance Ltd.	12,139
AA-3190829			Max Re Ltd.	48,629
23-0580680		24457	Reliance Insurance Co.	6,434
AA-9991444			Texas Workers Compensation	12,646
41-1357750		10181	Workers Compensation Reinsurance Assn.	8,221
Total Aggregate Unsecured Reinsurance Recoverables in excess of 3% of the Company's surplus				\$ 1,190,212

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
(in thousands)				
Converium Reins. North America Inc.	\$ 89,619	\$ 0	\$ 89,619	\$ 0
Insurance Co. of North America	11,409	0	11,409	0
Reliastar Life Insurance Co.	8,836	0	8,836	0
Continental Casualty Co.	6,167	0	6,167	0
Munich Reinsurance America Inc.	4,860	0	0	4,860
Employers Insurance of Wausau A Mutual Co.	4,076	0	4,076	0
Transatlantic Reinsurance Co.	2,948	2,948	0	0
Ace American Insurance/Cigna Insurance Co.	2,510	0	2,510	0
National Casualty Co.	1,966	0	1,966	0
Excess Insurance Co. Ltd.	1,261	0	1,261	0
Arch Reinsurance Co.	537	537	0	0
Continental Insurance Co.	533	0	533	0
Vermont Reserve Insurance Co.	437	437	0	0
R&Q Reinsurance Co.	292	0	292	0
Partner Reinsurance New York	207	207	0	0
Argonaut Insurance Co.	168	168	0	0
Texas Small Premium Policy Plan	38	38	0	0
Nationwide Mutual Insurance Co.	21	0	21	0
General Reinsurance Corp.	21	21	0	0
American Employers Insurance Co	6	6	0	0
Swiss Reinsurance America Corp.	3	3	0	0
Total	\$ 135,914	\$ 4,365	\$ 126,689	\$ 4,860

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, 2007, is shown below:

(in thousands)	ASSUMED REINSURANCE		CEDED REINSURANCE		NET	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
(i) Affiliates	\$ 6,325	\$ 332	\$ 38	\$ (3)	\$ 6,288	\$ 334
(ii) All other	451	(32)	2,733	(28)	(2,282)	(4)
(iii) Total	\$ 6,777	\$ 300	\$ 2,771	\$ (30)	\$ 4,006	\$ 330
(iv) Direct Unearned Premium Reserve: \$1,399						

NOTES TO FINANCIAL STATEMENTS

- (2) Certain reinsurance agreements provide for additional or return commissions based on the actual loss experience of the reinsured business. At December 31, 2006, the accrual for ceded contingent commissions was estimated to be a net liability of approximately \$4.3 million and was included in line 12 under "Liabilities" in the Company's balance sheet. At December 31, 2007, based on then current estimates, the Company's accrual for ceded contingent commissions was a net asset of approximately \$20.8 million. This accrued amount is included in line 23 under "Assets" on the Company's December 31, 2007 balance sheet. Such amounts have been estimated based on actuarial techniques and as such are subject to periodic re-evaluation.

(in thousands)	DIRECT	ASSUMED	CEDED	NET
(i) Contingent Commission	\$ 0	\$ 0	\$ 23,120	\$ (23,120)
(ii) Sliding Scale Adjustments	0	0	(2,349)	2,349
(iii) Other Profit Commission Arrangements	0	0	0	0
(iv) Total	\$ 0	\$ 0	\$ 20,771	\$ (20,771)

D. Uncollectible Reinsurance

During 2007, the Company wrote off approximately \$2.6 million of reinsurance recoverables, net of corresponding reductions in the provision for reinsurance.

NOTES TO FINANCIAL STATEMENTS

E. Commutation of Ceded Reinsurance

The Company has reported the following amounts in its 2007 operations year as a result of commutations of ceded reinsurance with the companies listed below:

Reinsurer	FEIN Code	Amount	Reflected As
		(in thousands)	
Alea (Bermuda), Ltd.	AA-3190800	\$ 14,416	Losses Incurred
Swiss Reinsurance America Corp.	13-1675535	4,548	Losses Incurred
Swiss Reinsurance America Corp.	13-1675535	(970)	Other
Berkeley Insurance Co.	47-0574325	36	Losses Incurred
Berkeley Insurance Co.	47-0574325	(3)	Other
Trenwick Amer Reins Corp.	41-1353943	11,558	Losses Incurred
Trenwick Amer Reins Corp.	41-1353943	(16,569)	Other
Commercial Risk Re-Insurance Co.	03-0331391	(1,821)	Other
Constellation Reinsurance Co.	31-0908652	(1,875)	Losses Incurred
Constellation Reinsurance Co.	31-0908652	(79)	Other
CX Reinsurance Co. Ltd.	ZZ-0000002	(14)	Losses Incurred
CX Reinsurance Co. Ltd.	ZZ-0000002	(49)	Other
Home & Overseas Insurance Co. Ltd.	AA-1120518	(6)	Losses Incurred
Home & Overseas Insurance Co. Ltd.	AA-1120518	(3)	Other
Reliastar Life Insurance Co.	41-0451140	(500)	Losses Incurred
Markel International Insurance Co. Ltd.	AA-1121425	(128)	Losses Incurred
Markel International Insurance Co. Ltd.	AA-1121425	(9)	Other
Matador Insurance Co.	98-0215789	2	Losses Incurred
Matador Insurance Co.	98-0215789	(50)	Other
Monument Select Insurance Co.	ZZ-0000004	(122)	Other
Orion Insurance Co. PLC	AA-1121135	1	Losses Incurred
Orion Insurance Co. PLC	AA-1121135	19	Other
Overseas Union Insurance Ltd.	AA-5760040	49	Losses Incurred
Overseas Union Insurance Ltd.	AA-5760040	(340)	Other
Scottish Lion Insurance Co. Ltd.	AA-1121310	(4)	Losses Incurred
Scottish Lion Insurance Co. Ltd.	AA-1121310	(9)	Other
Turegum Insurance Co. (UK) Ltd.	AA-1120431	144	Losses Incurred
Turegum Insurance Co. (UK) Ltd.	AA-1120431	(351)	Other

NOTES TO FINANCIAL STATEMENTS

Reinsurer	FEIN Code	Amount	Reflected As
		(in thousands)	
Zurich Specialties London Ltd.	AA-1120001	\$ 188	Losses Incurred
Zurich Specialties London Ltd.	AA-1120001	(206)	Other
QBE Reinsurance (UK) Ltd.	AA-1120145	(13)	Losses Incurred
Assurances Generales	AA-1320039	(9)	Losses Incurred
GAN Incendie Accidents	AA-1320135	(1)	Losses Incurred
Groupama Insurance Co. Ltd.	AA-1120980	0	Losses Incurred
Gothaer Versicherungsbank VAG	AA-1340105	(5)	Losses Incurred
Minster Insurance Co. Ltd.	ZZ-0000061	(2)	Losses Incurred
New Zealand Insurance Co. Ltd.	AA-1960665	(7)	Losses Incurred
New Zealand Reinsurance Co. (UK) Ltd.	AA-1121066	0	Losses Incurred
Wurttembergische Versicherung AG	AA-1340255	(1)	Losses Incurred
Moorgate Insurance Ltd.	AA-1121200	(3)	Losses Incurred
CGU Bonus Ltd.	AA-1121065	1	Losses Incurred
Lloyd's Syndicate Number 376	AA-1126376	13	Losses Incurred
Lloyd's Syndicate Number 1207	AA-1127207	0	Losses Incurred
Lloyd's Syndicate Number 2376	AA-1128376	0	Losses Incurred
Lloyd's Syndicate Number 376	AA-1126376	(62)	Other
Lloyd's Syndicate Number 1207	AA-1127207	0	Other
Lloyd's Syndicate Number 2376	AA-1128376	0	Other
Lloyd's Syndicate Number 1007	AA-1127007	292	Losses Incurred
Lloyd's Syndicate Number 1007	AA-1127007	136	Other
Lloyd's Syndicate Number 1212	AA-1127212	83	Losses Incurred
Lloyd's Syndicate Number 1212	AA-1127212	39	Other
Lloyd's Syndicate Number 1241	AA-1127241	594	Losses Incurred
Lloyd's Syndicate Number 1241	AA-1127241	276	Other
Lloyd's Syndicate Number 1415	AA-1127415	0	Losses Incurred
Lloyd's Syndicate Number 1415	AA-1127415	0	Other
Lloyd's Syndicate Number 2147	AA-1128147	0	Losses Incurred
Lloyd's Syndicate Number 2147	AA-1128147	0	Other
Total		\$ 9,182	

F. Retroactive Reinsurance

None. (See Note 1.A.)

NOTES TO FINANCIAL STATEMENTS

G. Reinsurance Accounted for as a Deposit

The Company entered into various reinsurance agreements prior to 2003 which were subsequently determined to be of a deposit type nature. As of December 31, 2007, the Company had a total remaining deposit balance of \$0.8 million after taking into account interest income on deposits and cash recoveries, as follows:

(in thousands)	Contract #1	Contract #2	Contract #3	Total
Effective Date	11/1/2000	11/1/1999	7/1/2001	
Effective Yield	9.90%	18.94%	-9.66%	
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
2007:				
Initial payment	\$ 0	0	0	0
Cash deposits	0	0	0	0
Interest income	2,306	161	145	2,612
Cash recoveries	(13,300)	(700)	(599)	(14,599)
Deposit balance	\$ 0	\$ 35	\$ 776	\$ 811

NOTES TO FINANCIAL STATEMENTS

23. RETROSPECTIVELY RATED CONTRACTS & CONTRACTS SUBJECT TO REDETERMINATION

- A. Accrued retrospective premiums reported on Page 2, Assets, Line 13.3, Column 3 have been determined based upon loss experience on business subject to retrospective rating and dividend recall plans.
- B. Accrued retrospective premiums are recorded through an adjustment to earned premium.
- C. For detail of net premium written subject to retrospective rating features, see Schedule P – Part 7A.
- D. Ten percent of the amount not offset by retrospective return premium or collateral has been designated nonadmitted and charged to surplus.

	December 31, 2007
	(in thousands)
Accrued retrospective premium	\$ 17,502
Less: Nonadmitted amount	621
Admitted amount	\$ 16,881

24. CHANGES IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	2007	2006
	(in thousands)	
Balance as of January 1, net of reinsurance recoverables of \$1,460,753 in 2007 and \$2,081,041 in 2006	\$ 1,575,633	\$ 2,009,562
Incurred related to:		
Current accident year	4,130	11,776
Prior accident years	90,816	130,616
Total incurred	94,946	142,392
Paid related to:		
Current accident year	(1,046)	(7,190)
Prior accident years	(432,136)	(569,131)
Total paid	(433,182)	(576,321)
Balance as of December 31, net of reinsurance recoverables of \$1,135,204 in 2007 and \$1,460,753 in 2006	\$ 1,237,397	\$ 1,575,633

The incurred loss and LAE related to prior accident years increased on a net basis by \$90.8 million in 2007 and \$130.6 million in 2006. The prior year development in 2007 is due to a reduction of \$93.0 million in discount and \$2.2 million in nominal favorable loss and LAE development. Of the \$93.0 million discount reduction, \$77.5 million was related to anticipated amortization of discount. The remaining discount reduction was related to elimination of loss reserves associated with novation/buyback/commutation activity. The \$2.2 million of nominal favorable development in 2007 was attributable to personal lines, surety, other liability, and workers compensation partially offset by deterioration in A&H, CMP, products liability and unallocated expenses. 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, \$72.0 million was related to anticipated amortization of discount. The remaining reduction was related to elimination of loss reserves associated with novation/buyback/commutation activity. The \$35.7 million of nominal adverse development in 2006 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.

25. INTERCOMPANY POOLING ARRANGEMENTS

The Company is the lead Kemper company. The significant majority of the business written by members of the Kemper Insurance Companies has historically been ceded to the Company through quota share reinsurance agreements with some Company subsidiaries retaining a portion of the business written and through a quota share pooling agreement by and among the Company, AMICO, and AMM. Prior to 2003, of the insurance business directly written by the Company or ceded to the Company, including all business written by AMICO and AMM, the Company ceded (net of third-party, unaffiliated, reinsurance and excluding Canadian business) 15% to AMICO and 8% to AMM. (Third-party reinsurance has generally attached after cessions by affiliates to the Company, although some specific risks have been subject to facultative or other reinsurance before cession to the Company.) Effective January 1, 2003, the pooling agreement was amended to eliminate the 15% cession to AMICO,

NOTES TO FINANCIAL STATEMENTS

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, 2007 and 2006, 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 2006, the Company realized a benefit to its surplus and liquidity of \$18.7 million when such refunds were paid.

26. STRUCTURED SETTLEMENTS

- A. In limited circumstances to settle certain insurance claim liabilities, the Company from time to time since the late 1970's purchased from various life insurance companies structured settlement annuities naming the settling claimants as payees. In many of those settlements, the Company has remained the owner of the respective annuity and contingently liable to the claimant, that is, liable for the periodic payments in the event of the default or insolvency of the life insurance company. In a limited number of these settlements, the Company's purchase of annuities has resulted in a full release from the settling claimants without contingent liability. Where the Company's purchase of annuities has not fully released the Company from contingent liability, the Company has calculated the present value (at a 4.2% discount rate) of future unpaid annuity installments. As shown in the following table, at December 31, 2007, the Company reports that its contingent liabilities for future unpaid annuity installments totaled \$365.0 million. Reflecting intercompany reinsurance arrangements, \$210.9 million of the Company's \$365.0 million of contingent liability arises on settlements of claims on policies initially issued by AMM, AMICO, and KICT.
- B. The total value of annuities due from a life insurer in excess of 1% of the Company's surplus is shown in the table below.

Life Insurance Company ⁽¹⁾	Location	Amount
		(in thousands)
Genworth Life and Annuity Insurance Company	Richmond, VA	\$ 74,056
Executive Life Insurance Company of New York ⁽²⁾	New York, NY	36,579
Symetra Life Insurance Company	Bellevue, WA	32,723
The Manufacturers Life Insurance Company	Toronto, Canada	22,085
Life Insurance Company of North America	Bloomfield, CT	21,294
AIG Annuity Insurance Company	New York, NY	21,221
Genworth Life Insurance Company	Richmond, VA	16,750
Fidelity Life Association	Oak Brook, IL	15,594
Metropolitan Life Insurance Company	Long Island City, NY	14,129
Monumental Life Insurance Company	Cedar Rapids, IA	12,432
Aviva Life Insurance Company	Quincy, MA	9,825
Presidential Life Insurance Company	Nyack, NY	8,047
Pacific Life Insurance Company	Newport Beach, CA	7,839
The Prudential Insurance Company of America	Newark, NJ	7,669
Midland National Life Insurance Company	Sioux Falls, SD	7,054
Transamerica Occidental Life Insurance Company	Cedar Rapids, IA	6,238
Protective Life Insurance Company	Birmingham, AL	5,533
The Lincoln National Life Insurance Company	Ft. Wayne, IN	4,705
Aurora National Life Assurance Company	Wethersfield, CT	3,566

NOTES TO FINANCIAL STATEMENTS

Sun Life Assurance Company of Canada	Toronto, Canada	3,321
Allstate Life Insurance Company of New York	Northbrook, IL	3,265
New York Life Insurance Company	New York, NY	2,582
Allstate Life Insurance Company	Northbrook, IL	2,521
MetLife Insurance Company of Connecticut	Fort Wayne, IN	2,070
Transamerica Financial Life Insurance Company	Cedar Rapids, IA	1,911
Monarch Life Insurance Company ⁽³⁾	Springfield, MA	1,824
United of Omaha Life Insurance Company	Omaha, NE	1,691
AIG Life Insurance Company	Houston, TX	1,682
The Canada Life Assurance Company	Toronto, Canada	1,665
American General Life Insurance Company	Houston, TX	1,544
All other		13,632
Total		\$ 365,046

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

⁽²⁾ ELNY was placed in rehabilitation under the supervision of the New York Liquidation Bureau in 1992. ELNY has continued to pay 100% on all its annuities since then; however, the extent of ELNY's ability to continue to pay its obligations as they become due is unknown. There is a reasonable possibility that a liability will be incurred, but the Company believes that an estimate of a liability currently cannot be made with available information.

⁽³⁾ Monarch was placed in rehabilitation under the supervision of the Insurance Commission of the Commonwealth of Massachusetts in June 1994 and is continuing to pay 100% of its annuities. The Company does not know the extent of Monarch's ability to pay its obligations as they become due.

27. HEALTH CARE RECEIVABLES

None.

28. PARTICIPATING POLICIES

None.

29. PREMIUM DEFICIENCY RESERVES

As of December 31, 2007, the Company had liabilities of \$4.0 million related to premium deficiency reserves. The Company used an offset of \$2.7 million for anticipated investment income based on an interest rate of 4.2% when calculating its premium deficiency reserves.

30. HIGH DEDUCTIBLES

As of December 31, 2007, the amount of reserve credits recorded for high deductibles on unpaid workers compensation claims was \$461.3 million, and for non-workers compensation claims it was \$48.2 million. The workers compensation amount reflects both Broadspire handled claims and also claims handled by other third-party administrators. The non-workers compensation amount reflects only claims handled by Broadspire. Information is not available for the non-workers compensation claims not handled by Broadspire. The amount billed and recoverable on paid claims was \$22.2 million at December 31, 2007.

NOTES TO FINANCIAL STATEMENTS

31. 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, 2007 is \$439.6 million, of which \$140.0 million 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.

Tabular Discount	
Included in Schedule P, Part 1	
<u>Line of Business</u>	<u>Case and IBNR*</u>
	(in thousands)
Workers' Compensation	\$ 139,979
Non-Tabular Discount	
<u>Line of Business</u>	
Homeowners/Farmowners	221
Private Passenger Auto Liability/Medical	664
Commercial Auto/Truck Liability/Medical	11,715
Workers' Compensation	186,960
Commercial Multi Peril	16,463
Medical Malpractice - occurrence	64
Medical Malpractice - claims-made	89
Special Liability	684
Other Liability - occurrence	40,764
Other Liability - claims-made	9,184
Special Property	(103)
Auto Physical Damage	(6)
Fidelity/Surety	2,353
Other (including Credit, A&H)	82
Reinsurance Nonproportional Assumed Liability	13,901
Products Liability - occurrence	16,621
Total	299,656
Grand Total	\$ 439,635

*Includes loss and LAE.

NOTES TO FINANCIAL STATEMENTS

32. ASBESTOS/ENVIRONMENTAL RESERVES

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

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

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

Direct	2003	2004	2005	2006	2007
Beginning reserves	\$331,368,070	\$455,271,990	\$316,063,425	\$258,687,920	\$ 50,745,520
Incurred losses and LAE	152,687,878	(91,670,022)	(3,482,017)	(93,543,975)	8,171,540
Calendar year payments for					
Losses and LAE	(28,783,958)	(47,538,543)	(53,893,488)	(114,398,425)	(10,629,097)
Ending asbestos related Loss reserves	\$455,271,990	\$316,063,425	\$258,687,920	\$ 50,745,520	\$ 48,287,963

Assumed Reinsurance	2003	2004	2005	2006	2007
Beginning reserves	\$445,552,042	\$353,531,439	\$281,545,618	\$243,722,459	\$234,969,103
Incurred losses and LAE	(36,694,400)	(12,295,536)	11,650,751	108,658,211	(2,675,434)
Calendar year payments for					
Losses and LAE	(55,326,203)	(59,690,285)	(49,473,910)	(117,411,567)	(49,478,301)
Ending asbestos related Loss reserves	\$353,531,439	\$281,545,618	\$243,722,459	\$234,969,103	\$182,815,368

Net of Reinsurance	2003	2004	2005	2006	2007
Beginning reserves	\$399,780,285	\$453,025,443	\$285,376,907	\$227,875,416	\$196,341,222
Incurred losses and LAE	31,962,348	(78,748,927)	10,523,263	28,650,043	5,224,196
Calendar year payments for					
Losses and LAE	21,282,810	(88,899,609)	(68,024,754)	(60,184,237)	(37,843,904)
Ending asbestos related Loss reserves	\$453,025,443	\$285,376,907	\$227,875,416	\$196,341,222	\$163,721,514

The total asbestos related loss reserves at December 31, 2007 include IBNR reserves in the amount of \$11,569,779 direct, \$76,926,585 assumed, and \$51,671,648 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, 2007 also include LAE in the amount of \$24,066,294 direct, \$83,830,795 assumed, and \$88,619,312 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 net asbestos related loss reserves reflected on the Company's December 31, 2007 balance sheet is \$40,205,335.

NOTES TO FINANCIAL STATEMENTS

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

Direct	2003	2004	2005	2006	2007
Beginning reserves	\$ 19,352,955	\$ 17,498,742	\$ 14,957,958	\$ 17,022,837	\$ 10,696,560
Incurred losses and LAE	780,346	24,692,719	9,759,045	5,299,250	(1,724,558)
Calendar year payments for					
Losses and LAE	(2,634,559)	(27,233,503)	(7,694,166)	(11,625,527)	(3,054,797)
Ending environmental related Loss Reserves	\$ 17,498,742	\$ 14,957,958	\$ 17,022,837	\$ 10,696,560	\$ 5,917,205
Assumed Reinsurance	2003	2004	2005	2006	2007
Beginning reserves	\$135,965,731	\$ 129,512,642	\$ 88,934,152	\$ 77,424,436	\$ 66,025,514
Incurred losses and LAE	(3,285,333)	(20,713,613)	681,981	81,301	(7,552,263)
Calendar year payments for					
Losses and LAE	(3,167,756)	(19,864,877)	(12,191,697)	(11,480,223)	(20,553,358)
Ending environmental related Loss Reserves	\$ 129,512,642	\$ 88,934,152	\$ 77,424,436	\$ 66,025,514	\$ 37,919,893
Net of Reinsurance	2003	2004	2005	2006	2007
Beginning reserves	\$104,945,721	\$ 125,862,725	\$ 88,310,338	\$ 74,371,455	\$ 63,373,890
Incurred losses and LAE	(3,066,662)	(6,290,164)	(3,202,697)	10,720,933	(9,596,825)
Calendar year payments for					
Losses and LAE	23,983,666	(31,262,223)	(10,736,186)	(21,718,498)	(15,209,774)
Ending environmental related Loss Reserves	\$ 125,862,725	\$ 88,310,338	\$ 74,371,455	\$ 63,373,890	\$ 38,567,291

The total environmental related loss reserves at December 31, 2007 include IBNR reserves in the amount of \$1,381,244 direct, \$11,206,460 assumed, and \$8,755,412 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, 2007 also include LAE in the amount of \$3,052,753 direct, \$17,309,607 assumed, and \$18,348,220 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 net environmental related loss reserves reflected on the Company's December 31, 2007 balance sheet is \$5,772,631.

33. SUBSCRIBER SAVINGS ACCOUNT

None.

34. MULTIPLE PERIL CROP INSURANCE

None.

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	171,342,119	12.568	171,342,119	12.532
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	66,113,426	4.849	66,113,426	4.835
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)	2,225,636	0.163	2,225,636	0.163
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	638,432	0.047	638,432	0.047
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations		0.000		0.000
1.43 Revenue and assessment obligations	29,307,213	2.150	29,307,213	2.144
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	10,726	0.001	10,726	0.001
1.512 Issued or guaranteed by FNMA and FHLMC	16,535,135	1.213	16,535,135	1.209
1.513 All other		0.000		0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	134,073,578	9.834	134,073,578	9.806
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	121,332,217	8.900	121,332,217	8.874
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	599,607,693	43.981	599,607,693	43.856
2.2 Unaffiliated foreign securities	2,455,367	0.180	2,455,367	0.180
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		0.000		0.000
3.32 Unaffiliated	113,981	0.008	113,981	0.008
3.4 Other equity securities:				
3.41 Affiliated	55,782,567	4.092	59,677,331	4.365
3.42 Unaffiliated	2,655,199	0.195	2,655,199	0.194
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated	5,315,221	0.390	5,315,221	0.389
3.52 Unaffiliated	56,898	0.004	56,898	0.004
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)		0.000	0	0.000
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	155,761,516	11.425	155,761,516	11.393
9. Other invested assets		0.000		0.000
10. Total invested assets	1,363,326,924	100.000	1,367,221,688	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:05/22/2007
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made.12/31/2005
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.12/31/2005
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).07/11/2007
- 3.4 By what department or departments? Illinois.....
- 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 14D.
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [] No [X]
- 7.2 If yes,
- 7.21 State the percentage of foreign control;
- 7.22 State the nationality(s) of the foreign person(s) or entity(s) or if the entity is a mutual or reciprocal, the nationality of its manager or attorney in fact; and identify the type of entity(s) (e.g., individual, corporation or government, manager or attorney in fact).

1 Nationality	2 Type of Entity

ANNUAL STATEMENT FOR THE YEAR 2007 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

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 []
- LGA-17 Inc. & Delta
Wetlands Joint Venture....
- 11.11 Name of real estate holding company
- 11.12 Number of parcels involved.....2
- 11.13 Total book/adjusted carrying value..... \$7,277,965
- 11.2 If yes, provide explanation
12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 12.1 What changes have been made during the year in the United States Manager or the United States Trustees of the reporting entity?
- 12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [] No []
- 12.3 Have there been any changes made to any of the trust indentures during the year? Yes [] No []
- 12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes? Yes [] No [] NA []
- 13.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes [X] No []
- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and
- a. professional relationships;
- b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- c. Compliance with applicable governmental laws, rules and regulations;
- d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- e. Accountability for adherence to the code.
- 13.11 If the response to 13.1 is No, please explain:
- 13.2 Has the code of ethics for senior managers been amended?..... Yes [] No [X]
- 13.21 If the response to 13.2 is Yes, provide information related to amendment(s).
- 13.3 Have any provisions of the code of ethics been waived for any of the specified officers?..... Yes [] No [X]
- 13.31 If the response to 13.3 is Yes, provide the nature of any waiver(s).

BOARD OF DIRECTORS

14. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No []
15. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No []
16. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or likely to conflict with the official duties of such person?..... Yes [X] No []

GENERAL INTERROGATORIES

FINANCIAL

17. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? Yes No
- 18.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 18.11 To directors or other officers .. \$.....0
 - 18.12 To stockholders not officers ... \$.....0
 - 18.13 Trustees, supreme or grand (Fraternal only) \$.....0
- 18.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 18.21 To directors or other officers ... \$.....0
 - 18.22 To stockholders not officers \$.....0
 - 18.23 Trustees, supreme or grand (Fraternal only) \$.....0
- 19.1 Were any 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
- 19.2 If yes, state the amount thereof at December 31 of the current year:
- 19.21 Rented from others \$.....
 - 19.22 Borrowed from others \$.....
 - 19.23 Leased from others \$.....
 - 19.24 Other \$.....
- 20.1 Does this statement include payments for assessments as described in the *Annual Statement Instructions* other than guaranty fund or guaranty association assessments? Yes No
- 20.2 If answer is yes:
- 20.21 Amount paid as losses or risk adjustment \$.....
 - 20.22 Amount paid as expenses \$.....
 - 20.23 Other amounts paid \$.....
- 21.1 Does the reporting entity report any amounts due from the parent, subsidiaries or affiliates on Page 2 of this statement? Yes No
- 21.2 If yes, indicated any amounts receivable from parent included in the Page 2 amount:..... \$.....

INVESTMENT

- 22.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? Yes No
- 22.2 If no, give full and complete information relating thereto:
- 23.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 19.1) Yes No
- 23.2 If yes, state the amount thereof at December 31 of the current year:
- 23.21 Loaned to others \$.....0
 - 23.22 Subject to repurchase agreements \$.....0
 - 23.23 Subject to reverse repurchase agreements \$.....0
 - 23.24 Subject to dollar repurchase agreements \$.....0
 - 23.25 Subject to reverse dollar repurchase agreements \$.....0
 - 23.26 Pledged as collateral \$.....267,012,131
 - 23.27 Placed under option agreements \$.....0
 - 23.28 Letter stock or other securities restricted as to sale ... \$.....0
 - 23.29 On deposit with state or other regulatory body \$.....455,009,880
 - 23.291 Other \$.....0
- 23.3 For category (23.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

- 24.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes No
- 24.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes No NA
If no, attach a description with this statement.
- 25.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes No
- 25.2 If yes, state the amount thereof at December 31 of the current year. \$.....0

GENERAL INTERROGATORIES

26. 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 Section 3, III Conducting Examinations, G - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes [] No []

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

1 Name of Custodian(s)	2 Custodian's Address
BNY Midwest Trust Company.....	209 W. Jackson Blvd. Suite 800, Chicago, IL 60606....

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

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

26.03 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year?

Yes [] No []

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

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

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

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

27.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])?.....

Yes [] No []

27.2 If yes, complete the following schedule:

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

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

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

GENERAL INTERROGATORIES

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

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-) or Fair Value over Statement (+)
28.1 Bonds.....	1,290,049,817	1,246,877,094	(43,172,723)
28.2 Preferred stocks.....	0		0
28.3 Totals	1,290,049,817	1,246,877,094	(43,172,723)

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

See Footnote 5.....

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

29.2 If no, list the exceptions:

OTHER

30.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any?.....\$195,660

30.2 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
Louisiana Insurance Rating Commission.....	157,078

31.1 Amount of payments for legal expenses, if any?.....\$6,116,117

31.2 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
Greenberg, Traurig LLP.....	1,553,527

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

32.2 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 Interrogatory Part 1, #17 - See related Financial Note 1A.

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		2
		Current Year		Prior Year
2.1	Premium Numerator	\$0	\$	.....0
2.2	Premium Denominator	\$13,731,237	\$	.....19,243,766
2.3	Premium Ratio (2.1/2.2)	.....0.000		.....0.000
2.4	Reserve Numerator	\$21,710,417	\$	.....24,426,428
2.5	Reserve Denominator	\$1,264,115,965	\$	.....1,618,225,602
2.6	Reserve Ratio (2.4/2.5)	.....0.017		.....0.015

- 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 2007 as a result of the run-off of the Company's exposures beginning in 2003. It was no longer necessary as of 2004 to estimate the nature and extent of the Company's probable maximum insurance loss or exposure concentrations.....
- 6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss?.....
 The Company elected to discontinue the purchase of property catastrophe excess of loss reinsurance upon expiration of the program at May 1, 2003.....
- 6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence?..... Yes [] No [X]
- 6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to unreinsured catastrophic loss.
 Due to the Company being well into run-off in 2007 there was no longer the necessity for per risk excess of loss reinsurance on either a facultative or risks attaching basis to protect against the risk of loss arising from single large loss occurrences.
- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?..... Yes [X] No []
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions..... 2
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?..... Yes [X] No []
- 8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured?..... Yes [] No [X]
- 8.2 If yes, give full information

- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
 (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
 (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 (c) Aggregate stop loss reinsurance coverage;
 (d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
 (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity..... Yes [X] No []
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:
 (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract..... Yes [] No [X]
- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
 (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
 (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
 (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 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.
- 9.6 The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:
 (a) The entity does not utilize reinsurance; or, Yes [] No [X]
 (b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or Yes [] No [X]
 (c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has file attestation supplement. Yes [] No [X]
10. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? Yes [X] No [] N/A []

GENERAL INTERROGATORIES
PART 2 - PROPERTY & CASUALTY INTERROGATORIES

- 11.1 Has the reporting entity guaranteed policies issued by any other entity and now in force:..... Yes No
- 11.2 If yes, give full information
 The Company has guaranteed the obligations under policies issued on and after January 1, 2002 by its former Belgium subsidiary, Kemper S.A. (Societe Anonyme), and the obligations of its Australian subsidiary, Kemper Insurance Company Limited.....
- 12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 13.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
 12.11 Unpaid losses..... \$ 14,775,579
 12.12 Unpaid underwriting expenses (including loss adjustment expenses)..... \$ 1,957,283
- 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?..... \$ 11,288,570
- 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 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 No
- 12.6 If yes, state the amount thereof at December 31 of the current year:
 12.61 Letters of Credit..... \$ 817,513,799
 12.62 Collateral and other funds..... \$ 99,570,447
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation):..... \$ 34,170,000
- 13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? Yes No
- 13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount.0
- 14.1 Is the company a cedant in a multiple cedant reinsurance contract?..... Yes 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
- 14.4 If the answer to 14.3 is no, are all the methods described in 14.2 entirely contained in written agreements?..... Yes 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
- 15.2 If yes, give full information

- 16.1 Does the reporting entity write any warranty business? Yes 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.....	\$ (59)	\$ 23,213	\$	\$	\$
16.12 Products.....	\$ (193)	\$ 75,542	\$	\$	\$
16.13 Automobile.....	\$	\$	\$	\$	\$
16.14 Other*.....	\$	\$	\$	\$	\$

* Disclose type of coverage:

GENERAL INTERROGATORIES
PART 2 - PROPERTY & CASUALTY INTERROGATORIES

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

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

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

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

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

ANNUAL STATEMENT FOR THE YEAR 2007 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

FIVE-YEAR HISTORICAL DATA

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

	1 2007	2 2006	3 2005	4 2004	5 2003
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)	793,950	(5,002,743)	22,472,322	27,799,424	629,763,302
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	(253,533)	(2,008,961)	1,299,270	873,033	214,257,216
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	(723,878)	(4,637,743)	527,821	(1,339,063)	231,115,268
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	2,923,905	11,623,275	6,500,480	19,548,881	(17,550,167)
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)	117,587	5,115,067	31,692	(1,267,149)	9,763,406
6. Total (Line 34)	2,858,031	5,088,895	30,831,585	45,615,126	1,067,349,025
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)	6,374,690	5,346,070	8,808,723	(14,821,429)	268,603,498
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	293,488	104,930	707,042	(1,679,743)	48,122,517
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	(193,320)	259,419	1,131,312	1,825,143	33,750,795
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	3,198,013	3,895,945	(13,171,767)	7,973,776	(112,873,230)
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)	346	54,643	(237,556)	(1,975,020)	2,962,535
12. Total (Line 34)	9,673,217	9,661,007	(2,762,246)	(8,677,273)	240,566,115
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	(139,170,703)	(212,151,242)	(225,300,503)	(227,357,285)	101,824,464
14. Net investment gain (loss) (Line 11)	64,760,335	80,620,898	68,978,876	108,977,098	(389,652,336)
15. Total other income (Line 15)	8,573,488	3,624,729	55,064,209	14,797,895	(239,745,941)
16. Dividends to policyholders (Line 17)	5,082,057	6,910,195	7,127,581	(49,931,358)	16,972,607
17. Federal and foreign income taxes incurred (Line 19)	(3,032,855)	(28,425,559)	(24,410,660)	12,317,644	(27,168,635)
18. Net income (Line 20)	(67,886,082)	(106,390,251)	(83,974,339)	(65,968,578)	(517,377,785)
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	1,684,247,514	2,136,458,926	2,735,065,059	3,776,440,507	5,229,941,637
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	7,243,968	27,374,791	74,550,449	109,557,218	164,086,680
20.2 Deferred and not yet due (Line 13.2)	21,907,984	29,607,577	47,995,805	90,367,442	145,990,451
20.3 Accrued retrospective premiums (Line 13.3)	16,881,174	34,138,540	58,656,689	107,837,509	157,532,537
21. Total liabilities excluding protected cell business (Page 3, Line 24)	1,533,583,128	1,962,866,314	2,566,751,908	3,605,005,627	5,027,515,672
22. Losses (Page 3, Line 1)	908,734,516	1,087,138,476	1,416,382,931	2,016,267,854	3,094,210,933
23. Loss adjustment expenses (Page 3, Line 3)	328,662,125	488,494,066	593,179,696	742,764,295	729,758,862
24. Unearned premiums (Page 3, Line 9)	5,405,172	9,463,192	19,045,951	43,108,518	111,595,492
25. Capital paid up (Page 3, Lines 28 & 29)	0	0	0	0	0
26. Surplus as regards policyholders (Page 3, Line 35)	150,664,386	173,592,612	168,313,151	171,434,880	202,425,965
Cash Flow (Page 5)					
27. Net cash from operations (Line 11)	(295,823,118)	(347,667,425)	(718,219,571)	(1,119,313,723)	(479,294,594)
Risk-Based Capital Analysis					
28. Total adjusted capital	150,664,386	173,592,612	168,313,151	171,434,880	182,973,965
29. Authorized control level risk-based capital	165,333,453	209,285,653	264,983,529	390,670,561	545,728,319
Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3)(Item divided by Page 2, Line 10, Col. 3) x 100.0					
30. Bonds (Line 1)	83.6	84.7	76.8	58.2	41.9
31. Stocks (Lines 2.1 & 2.2)	4.6	5.3	4.6	4.0	7.1
32. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.0	0.0	0.0	0.1	0.4
33. Real estate (Lines 4.1, 4.2 & 4.3)	0.0	0.3	0.2	1.3	1.0
34. Cash, cash equivalents and short-term investments (Line 5)	11.4	8.0	15.3	34.5	46.9
35. Contract loans (Line 6)	0.0	0.0	0.0	0.0	0.0
36. Other invested assets (Line 7)	0.5	1.8	1.4	1.9	2.6
37. Receivables for securities (Line 8)	0.0	0.0	1.6	0.1	0.1
38. Aggregate write-ins for invested assets (Line 9)	0.0	0.0	0.0	0.0	0.0
39. Cash, cash equivalents and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
40. Affiliated bonds, (Sch. D, Summary, Line 25, Col. 1)	0	0	0	0	0
41. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)	0	0	0	0	0
42. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 1)	59,677,331	85,535,429	91,424,689	105,837,000	260,674,361
43. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 7)	0	0	0	0	0
44. Affiliated mortgage loans on real estate	0	0	0	0	0
45. All other affiliated	5,315,221	27,666,041	27,437,526	0	0
46. Total of above Lines 40 to 45	64,992,552	113,201,470	118,862,215	105,837,000	260,674,361
47. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 46 above divided by Page 3, Col. 1, Line 35 x 100.0)	43.1	65.2	70.6	61.7	128.8

ANNUAL STATEMENT FOR THE YEAR 2007 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2007	2 2006	3 2005	4 2004	5 2003
Capital and Surplus Accounts (Page 4)					
48. Net unrealized capital gains (losses) (Line 24)	(3,031,350)	1,986,345	2,373,602	(22,252,837)	107,581,822
49. Dividends to stockholders (Line 35)	0	0	0	0	0
50. Change in surplus as regards policyholders for the year (Line 38)	(22,928,226)	5,279,461	(3,121,729)	(30,991,085)	(494,420,078)
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
51. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	502,026,889	865,340,195	1,042,023,542	928,545,629	872,848,164
52. Property lines (Lines 1, 2, 9, 12, 21 & 26)	1,584,749	48,150	11,457,743	17,434,877	170,514,662
53. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	41,462,817	86,115,610	107,495,667	108,880,809	382,980,743
54. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	686,154	16,663,245	127,477,006	88,488,799	232,581,726
55. Nonproportional reinsurance lines (Lines 30, 31 & 32)	40,341,048	46,352,848	94,643,337	90,414,974	27,030,651
56. Total (Line 34)	586,101,657	1,014,520,048	1,383,097,295	1,233,765,088	1,685,955,946
Net Losses Paid (Page 9, Part 2, Col. 4)					
57. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	247,702,430	323,624,151	551,574,190	793,516,536	(429,172,796)
58. Property lines (Lines 1, 2, 9, 12, 21 & 26)	260,505	133,341	5,201,718	10,622,731	4,758,282
59. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	32,800,011	46,988,840	63,982,237	94,317,464	41,906,617
60. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	5,633,100	25,787,433	5,760,329	35,357,196	(78,530)
61. Nonproportional reinsurance lines (Lines 30, 31 & 32)	28,989,956	25,395,780	42,221,613	4,861,043	(2,558,166)
62. Total (Line 34)	315,386,002	421,929,545	668,740,087	938,674,970	(385,144,593)
Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
63. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
64. Losses incurred (Line 2)	997.6	481.6	323.3	(232.9)	(5.4)
65. Loss expenses incurred (Line 3)	(306.1)	258.3	381.0	593.4	(6.4)
66. Other underwriting expenses incurred (Line 4)	422.1	470.7	451.0	125.4	84.3
67. Net underwriting gain (loss) (Line 8)	(1,013.5)	(1,102.4)	(1,057.7)	(380.1)	25.6
Other Percentages					
68. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 34 x 100.0)	510.5	883.7	(1,503.5)	(654.0)	242.5
69. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	691.5	739.9	704.2	360.5	(11.8)
70. 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)	6.4	5.6	(1.6)	(5.1)	118.8
One Year Loss Development (000 omitted)					
71. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)	(11,693)	32,769	(17,799)	(218,544)	108,673
72. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 71 above divided by Page 4, Line 21, Col. 1 x 100.0)	(6.7)	19.5	(10.4)	(108.0)	15.6
Two Year Loss Development (000 omitted)					
73. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2 - Summary, Line 12, Col. 12)	16,611	(7,234)	(249,085)	(4,933)	1,086,807
74. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 73 above divided by Page 4, Line 21, Col. 2 x 100.0)	9.9	(4.2)	(123.0)	(0.7)	85.8

ANNUAL STATEMENT FOR THE YEAR 2007 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

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				
Governments (Including all obligations guaranteed by governments)	1. United States 237,466,271 2. Canada 75,199 3. Other Countries 0 4. Totals 237,541,470	240,965,386 76,004 0 241,041,390	239,336,142 78,439 0 239,414,581	233,971,046 75,000 0 234,046,046
States, Territories and Possessions (Direct and guaranteed)	5. United States 638,432 6. Canada 0 7. Other Countries 0 8. Totals 638,432	631,431 0 0 631,431	669,750 0 0 669,750	625,000 0 0 625,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States 0 10. Canada 0 11. Other Countries 0 12. Totals 0	0 0 0 0	0 0 0 0	0 0 0 0
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States 179,915,926 14. Canada 0 15. Other Countries 0 16. Totals 179,915,926	180,816,436 0 0 180,816,436	179,990,462 0 0 179,990,462	180,744,336 0 0 180,744,336
Public Utilities (unaffiliated)	17. United States 18,633,046 18. Canada 0 19. Other Countries 0 20. Totals 18,633,046	18,500,117 0 0 18,500,117	20,291,380 0 0 20,291,380	18,000,000 0 0 18,000,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States 701,507,921 22. Canada 0 23. Other Countries 4,605,805 24. Totals 706,113,725	653,982,389 0 4,687,340 658,669,730	703,316,280 0 4,931,627 708,247,907	707,609,994 0 2,000,000 709,609,994
Parent, Subsidiaries and Affiliates	25. Totals 0 26. Total Bonds 1,142,842,600	0 1,099,659,104	0 1,148,614,081	0 1,143,025,375
PREFERRED STOCKS				
Public Utilities (unaffiliated)	27. United States 0 28. Canada 0 29. Other Countries 0 30. Totals 0	0 0 0 0	0 0 0 0	0 0 0 0
Banks, Trust and Insurance Companies (unaffiliated)	31. United States 0 32. Canada 0 33. Other Countries 0 34. Totals 0	0 0 0 0	0 0 0 0	0 0 0 0
Industrial and Miscellaneous (unaffiliated)	35. United States 0 36. Canada 0 37. Other Countries 0 38. Totals 0	0 0 0 0	0 0 0 0	0 0 0 0
Parent, Subsidiaries and Affiliates	39. Totals 0 40. Total Preferred Stocks 0	0 0	0 0	0 0
COMMON STOCKS				
Public Utilities (unaffiliated)	41. United States 0 42. Canada 0 43. Other Countries 0 44. Totals 0	0 0 0 0	0 0 0 0	0 0 0 0
Banks, Trust and Insurance Companies (unaffiliated)	45. United States 727,791 46. Canada 0 47. Other Countries 0 48. Totals 727,791	1,332,202 0 0 1,332,202	727,791 0 0 727,791	727,791 0 0 727,791
Industrial and Miscellaneous (unaffiliated)	49. United States 2,007,844 50. Canada 33,545 51. Other Countries 0 52. Totals 2,041,389	2,007,844 33,545 0 2,041,389	1,419,754 28,232 0 1,447,987	1,419,754 28,232 0 1,447,987
Parent, Subsidiaries and Affiliates	53. Totals 59,677,331 54. Total Common Stocks 62,446,511	59,677,331 63,050,922	27,370,790 29,546,567	27,370,790 29,546,567
	55. Total Stocks 62,446,511 56. Total Bonds and Stocks 1,205,289,111	63,050,922 1,162,710,026	29,546,567 1,178,160,648	29,546,567 1,178,160,648

SCHEDULE D - VERIFICATION BETWEEN YEARS

Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year..... 1,482,155,699	7. Amortization of premium..... 3,864,312
2. Cost of bonds and stocks acquired, Column 7, Part 3 474,982,498	8. Foreign Exchange Adjustment:
3. Accrual of discount..... 3,576,895	8.1 Column 15, Part 1 0
4. Increase (decrease) by adjustment:.....	8.2 Column 19, Part 2, Sec. 1..... 0
4.1 Columns 12 - 14, Part 1..... 0	8.3 Column 16, Part 2, Sec. 2 0
4.2 Columns 15 - 17, Part 2, Sec. 1..... 0	8.4 Column 15, Part 4 0
4.3 Column 15, Part 2, Sec. 2..... (1,997,930)	9. Book/adjusted carrying value at end of current period 1,205,289,111
4.4 Columns 11 - 13, Part 4 (23)	10. Total valuation allowance 0
5. Total gain (loss), Column 19, Part 4 105,050	11. Subtotal (Lines 9 plus 10) 1,205,289,111
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4 749,668,765	12. Total nonadmitted amounts 0
	13. Statement value of bonds and stocks, current period 1,205,289,111

ANNUAL STATEMENT FOR THE YEAR 2007 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

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 Number of Claims Reported - Direct and Assumed	
	1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10 Salvage and Subrogation Received		11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)
				4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded			
1. Prior	XXX	XXX	XXX	142,679	51,449	48,576	2,715	3,598	478	1,430	140,211	XXX
2. 1998	3,283,749	455,427	2,828,322	2,466,098	538,725	234,967	47,367	159,425	5,831	77,780	2,268,567	XXX
3. 1999	3,338,595	888,663	2,449,932	2,774,917	1,042,282	271,721	71,455	180,655	9,702	103,255	2,103,853	XXX
4. 2000	3,723,754	1,067,553	2,656,201	2,783,399	1,036,057	306,531	87,868	277,923	21,091	235,956	2,222,837	XXX
5. 2001	4,776,690	2,304,460	2,472,230	2,936,735	1,355,150	329,645	83,713	316,309	57,529	165,318	2,086,297	XXX
6. 2002	4,528,662	2,631,131	1,897,531	1,712,374	702,852	226,007	69,652	231,487	98,911	73,347	1,298,453	XXX
7. 2003	2,597,722	2,164,948	432,774	738,299	496,304	84,575	31,693	71,057	17,819	34,543	348,115	XXX
8. 2004	262,845	203,034	59,811	100,507	49,028	11,539	2,747	22,460	3,110	1,880	79,621	XXX
9. 2005	63,843	42,544	21,299	28,038	11,763	2,794	907	12,990	1,469	706	29,683	XXX
10. 2006	24,866	5,621	19,245	8,365	20	854	418	81	26	161	8,836	XXX
11. 2007	9,230	(4,501)	13,731	986	54	338	257	45	12	0	1,045	XXX
12. Totals	XXX	XXX	XXX	13,692,397	5,283,684	1,517,547	398,792	1,276,029	215,979	694,376	10,587,518	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding - Direct and Assumed
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21 Direct and Assumed	22 Ceded			
	13	14	15	16	17	18	19	20					
	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded					
1.	822,428	136,475	(2,656)	39,411	83,457	4,040	103,464	29,616	15,236	3,162	966	809,225	XXX
2.	125,005	31,572	993	(5,049)	5,503	795	15,415	3,236	2,179	468	2,759	118,074	XXX
3.	179,598	80,160	49,733	27,321	6,981	1,814	19,943	10,608	2,935	667	234	138,621	XXX
4.	213,641	144,033	53,709	37,481	10,677	5,672	25,960	15,636	4,887	1,170	1,112	104,881	XXX
5.	211,781	139,108	58,774	50,589	13,346	5,502	34,034	17,335	8,064	1,892	23,929	111,572	XXX
6.	221,203	120,678	79,304	76,695	13,885	6,870	42,869	18,489	9,635	2,392	5,867	141,772	XXX
7.	104,761	56,134	43,000	47,503	8,358	3,988	24,340	499	5,818	1,281	15,136	76,872	XXX
8.	28,686	14,914	8,488	6,504	1,360	674	3,746	1,494	957	143	(431)	19,507	XXX
9.	1,369	178	3,534	1,238	362	11	1,794	469	258	43	446	5,378	XXX
10.	738	53	(3,205)	(8,736)	73	2	1,008	335	434	76	705	7,318	XXX
11.	851	107	2,124	254	42	2	906	112	474	85	0	3,837	XXX
12. Totals	1,910,061	723,412	293,798	273,211	144,044	29,370	273,479	97,829	50,878	11,380	50,723	1,537,058	XXX

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	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		35 Losses Unpaid	36 Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	193,317	5	XXX	450,569	165,334
2.	3,009,585	622,945	2,386,641	91.7	136.8	84.4	27,003	145		72,472	18,454
3.	3,486,483	1,244,009	2,242,474	104.4	140.0	91.5	26,550	260		95,300	16,511
4.	3,676,727	1,349,009	2,327,719	98.7	126.4	87.6	16,124	250		69,712	18,795
5.	3,908,687	1,710,818	2,197,869	81.8	74.2	88.9	7,445	215		73,413	30,499
6.	2,536,764	1,096,539	1,440,225	56.0	41.7	75.9	13,985	201		89,149	38,437
7.	1,080,208	655,220	424,987	41.6	30.3	98.2	9,344	81		34,780	32,667
8.	177,742	78,614	99,128	67.6	38.7	165.7	2,049	0		13,707	3,751
9.	51,140	16,079	35,061	80.1	37.8	164.6	820	0		2,667	1,891
10.	8,348	(7,806)	16,154	33.6	(138.9)	83.9	1,109	0		5,107	1,102
11.	5,766	883	4,883	62.5	(19.6)	35.6	753	0		1,861	1,223
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	298,499	1,157	XXX	908,737	328,665

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.

ANNUAL STATEMENT FOR THE YEAR 2007 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

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	2	3	4	5	6	7	8	9	10	11	12
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	One Year	Two Year
1. Prior	3,736,024	3,620,746	3,453,817	4,038,773	4,182,893	4,173,773	3,989,276	3,945,619	3,967,569	3,926,281	(41,288)	(19,338)
2. 1998	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	2,241,777	4,985	14,516
3. 1999	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	2,076,866	(1,641)	28,419
4. 2000	XXX	XXX	1,610,206	1,618,950	1,924,181	1,992,791	2,018,444	2,021,671	2,039,739	2,075,027	35,288	53,356
5. 2001	XXX	XXX	XXX	1,728,348	2,055,038	2,104,151	2,076,798	2,004,240	1,949,773	1,949,078	(695)	(55,162)
6. 2002	XXX	XXX	XXX	XXX	1,250,837	1,222,205	1,179,190	1,238,222	1,275,047	1,308,020	32,973	69,798
7. 2003	XXX	XXX	XXX	XXX	XXX	470,626	365,688	416,310	369,719	368,367	(1,352)	(47,943)
8. 2004	XXX	XXX	XXX	XXX	XXX	XXX	86,184	98,926	94,115	78,965	(15,150)	(19,961)
9. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	30,399	52,603	23,325	(29,278)	(7,074)
10. 2006	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	11,276	15,741	4,465	XXX
11. 2007	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	4,461	XXX	XXX
12. Totals											(11,693)	16,611

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	2	3	4	5	6	7	8	9	10	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		
1. Prior	000	674,896	1,286,669	1,726,753	1,953,973	2,235,754	2,534,313	2,739,353	2,902,900	3,039,991	XXX	XXX
2. 1998	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	2,114,973	XXX	XXX
3. 1999	XXX	686,918	1,185,332	1,466,033	1,627,526	1,658,754	1,734,067	1,827,087	1,898,351	1,932,901	XXX	XXX
4. 2000	XXX	XXX	759,838	1,237,516	1,532,059	1,637,902	1,771,898	1,866,599	1,923,160	1,966,005	XXX	XXX
5. 2001	XXX	XXX	XXX	727,783	1,210,266	1,461,707	1,652,384	1,749,284	1,769,445	1,827,517	XXX	XXX
6. 2002	XXX	XXX	XXX	XXX	459,740	553,991	781,826	950,162	1,091,115	1,165,877	XXX	XXX
7. 2003	XXX	XXX	XXX	XXX	XXX	(103,954)	66,876	199,618	251,705	294,877	XXX	XXX
8. 2004	XXX	XXX	XXX	XXX	XXX	XXX	33,452	47,607	56,189	60,271	XXX	XXX
9. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	14,594	17,354	18,162	XXX	XXX
10. 2006	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	7,161	8,781	XXX	XXX
11. 2007	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,013	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	2	3	4	5	6	7	8	9	10
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. Prior	1,681,770	1,167,478	625,754	801,265	657,745	405,727	245,995	163,491	174,281	120,920
2. 1998	780,934	334,188	268,098	75,630	54,756	35,428	73,177	37,448	30,747	28,663
3. 1999	XXX	570,957	301,863	68,238	160,881	88,375	141,801	63,068	76,898	39,360
4. 2000	XXX	XXX	550,986	43,166	157,507	104,598	82,342	39,041	38,109	34,409
5. 2001	XXX	XXX	XXX	614,611	409,730	294,420	219,232	116,994	66,187	41,044
6. 2002	XXX	XXX	XXX	XXX	482,914	292,680	142,392	120,914	55,856	34,603
7. 2003	XXX	XXX	XXX	XXX	XXX	406,590	140,924	99,582	35,614	20,493
8. 2004	XXX	XXX	XXX	XXX	XXX	XXX	28,464	32,956	21,972	4,236
9. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	13,132	31,513	3,621
10. 2006	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,358	6,204
11. 2007	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	2,664

ANNUAL STATEMENT FOR THE YEAR 2007 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

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		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)
		2 Direct Premiums Written	3 Direct Premiums Earned						
1. Alabama	AL	Yes	(9,722)	(18,102)	(23,820)	1,037,581	3,446,290	9,218,941	0
2. Alaska	AK	Yes	(584)	(584)	(13,756)	(471,489)	720,246	2,075,273	0
3. Arizona	AZ	Yes	(21,911)	(29,850)	(44,545)	1,764,240	7,308,719	13,827,653	0
4. Arkansas	AR	Yes	(3,666)	(9,206)	(14,799)	7,853,297	3,384,548	3,793,318	0
5. California	CA	Yes	(328,973)	(64,705)	(744,000)	33,585,449	13,243,475	85,357,915	0
6. Colorado	CO	Yes	(52,955)	(22,535)	(82,100)	1,077,408	1,977,611	2,649,574	0
7. Connecticut	CT	Yes	(2,086)	(32,538)	(102,676)	13,077,820	3,258,080	10,511,255	0
8. Delaware	DE	Yes	(8,396)	(8,967)	(169,544)	274,972	533,202	2,588,778	0
9. District of Columbia	DC	Yes	2,373	2,557	(10,774)	1,011,860	609,591	5,452,980	0
10. Florida	FL	No	52,861	48,055	(187,526)	11,651,284	668,796	20,050,582	0
11. Georgia	GA	Yes	(19,721)	(18,016)	(79,239)	8,773,521	34,567,556	43,245,015	0
12. Hawaii	HI	Yes	178,808	165,975	(76,639)	1,039,903	597,584	2,169,403	0
13. Idaho	ID	Yes	(536)	(536)	(18,189)	(35,707)	18,077	5,649	0
14. Illinois	IL	Yes	(1,319,223)	(1,375,976)	(436,681)	(859,419)	(50,094,825)	48,711,648	0
15. Indiana	IN	Yes	25,761	25,418	(35,283)	1,106,036	2,697,078	5,526,903	0
16. Iowa	IA	Yes	38,607	34,008	(29,193)	476,827	1,114,212	2,124,710	0
17. Kansas	KS	Yes	(10,696)	(14,408)	(23,116)	(73,489)	7	3,323,795	0
18. Kentucky	KY	Yes	(5,223)	73,735	(48,689)	993,911	3,648,814	18,204,637	0
19. Louisiana	LA	Yes	(44,644)	(58,049)	(56,402)	2,664,980	(1,462,031)	2,895,488	0
20. Maine	ME	Yes	(13,018)	(18,355)	(2,961)	193,527	269,854	177,476	0
21. Maryland	MD	Yes	20,050	8,928	(55,474)	3,661,896	7,726,181	22,141,258	0
22. Massachusetts	MA	Yes	387,880	410,259	(84,037)	9,486,672	14,870,558	21,417,106	0
23. Michigan	MI	Yes	227,637	209,532	(15,162)	3,580,986	12,776,628	16,213,416	0
24. Minnesota	MN	Yes	184,338	197,713	(188,118)	2,580,814	770,234	8,583,629	0
25. Mississippi	MS	Yes	(7,122)	(10,707)	(41,052)	1,475,045	(833,183)	731,203	0
26. Missouri	MO	Yes	(1,873)	53,252	(107,671)	497,686	812,033	3,672,280	0
27. Montana	MT	Yes	(2,769)	(2,769)	(284,767)	(245,712)	(243,092)	451,751	0
28. Nebraska	NE	Yes	4,872	(3,650)	(18,053)	19,968	271,041	1,730,753	0
29. Nevada	NV	Yes	(5,016)	(4,862)	1,561	3,555,794	3,131,051	2,027,631	0
30. New Hampshire	NH	Yes	221,363	213,745	(25,852)	475,454	670,505	3,189,939	0
31. New Jersey	NJ	Yes	(25,437)	316,863	(301,494)	9,050,972	2,850,689	56,483,193	0
32. New Mexico	NM	Yes	4,838	4,782	(10,631)	230,635	333,349	544,865	0
33. New York	NY	Yes	21,008	303,577	(1,154,178)	40,363,005	(25,809,529)	121,309,424	0
34. North Carolina	NC	Yes	(213,142)	(234,650)	(301,783)	2,751,318	4,834,002	11,532,316	0
35. North Dakota	ND	Yes	(49)	(49)	(871)	(2,970)	8,621	232,275	0
36. Ohio	OH	Yes	(7,919)	(19,991)	(34,911)	5,224,769	6,397,959	14,353,733	0
37. Oklahoma	OK	Yes	595,971	595,366	(18,905)	207,104	1,087,201	2,150,358	0
38. Oregon	OR	Yes	(231,476)	(239,758)	(8,879)	422,893	394,760	6,725,532	0
39. Pennsylvania	PA	Yes	(31,554)	(78,784)	(528,507)	9,677,783	7,405,533	22,278,261	0
40. Rhode Island	RI	Yes	46,442	47,051	(6,504)	604,344	1,715,726	6,538,685	0
41. South Carolina	SC	Yes	(51,391)	(79,269)	(131,920)	4,572,713	1,397,897	11,091,162	0
42. South Dakota	SD	Yes	(1,100)	(1,100)	(14,613)	14,497	207,019	658,608	0
43. Tennessee	TN	Yes	(133)	(10,819)	(217,482)	1,959,731	6,502,580	12,167,508	0
44. Texas	TX	Yes	(1,224)	19,808	(1,038,175)	12,384,677	16,744,891	80,802,959	0
45. Utah	UT	Yes	(30,033)	(30,033)	(17,804)	80,826	150,884	556,187	0
46. Vermont	VT	Yes	(827)	(9,039)	(4,678)	200,454	358,583	744,235	0
47. Virginia	VA	Yes	(3,101)	22,215	(195,618)	1,585,290	1,804,274	7,772,029	0
48. Washington	WA	Yes	(4,909)	1,680	(10,612)	4,982,056	8,428,208	13,881,626	0
49. West Virginia	WV	Yes	1,437	1,437	(32,737)	27,602	272,022	137,490	0
50. Wisconsin	WI	Yes	80,966	71,878	(145,859)	2,776,865	4,857,257	11,530,902	0
51. Wyoming	WY	Yes	5	4	(10,851)	29,785	243,202	201,688	0
52. American Samoa	AS	No	0	0	0	0	0	0	0
53. Guam	GU	No	0	0	0	0	0	0	0
54. Puerto Rico	PR	No	(40)	(40)	(38,142)	(537,341)	(206,267)	1,935,527	0
55. U.S. Virgin Islands	VI	No	0	0	0	0	0	0	0
56. Northern Mariana Islands	MP	Yes	0	0	0	0	0	0	0
57. Canada	CN	Yes	3,080	3,080	(29,963)	15,441	2,965,450	23,683,984	0
58. Aggregate other alien	OT	XXX	(241,531)	(169,766)	0	5,450,136	(17,037,562)	(15,879,582)	0
59. Totals	(a)	51	(603,703)	263,805	(7,273,674)	212,303,700	92,365,589	752,502,924	0
DETAILS OF WRITE-INS									
5801. Asia	XXX		34,470	34,769	0	1,108,338	(3,411,257)	494,199	0
5802. Australia	XXX		0	287	0	0	(16,893,964)	(16,900,512)	0
5803. Europe	XXX		(721)	16,672	0	4,341,910	3,027,804	537,246	0
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX		(275,280)	(221,494)	0	(112)	239,855	(10,515)	0
5899. Totals (Lines 5801 through 5803 + 5898) (Line 58 above)	XXX		(241,531)	(169,766)	0	5,450,136	(17,037,562)	(15,879,582)	0

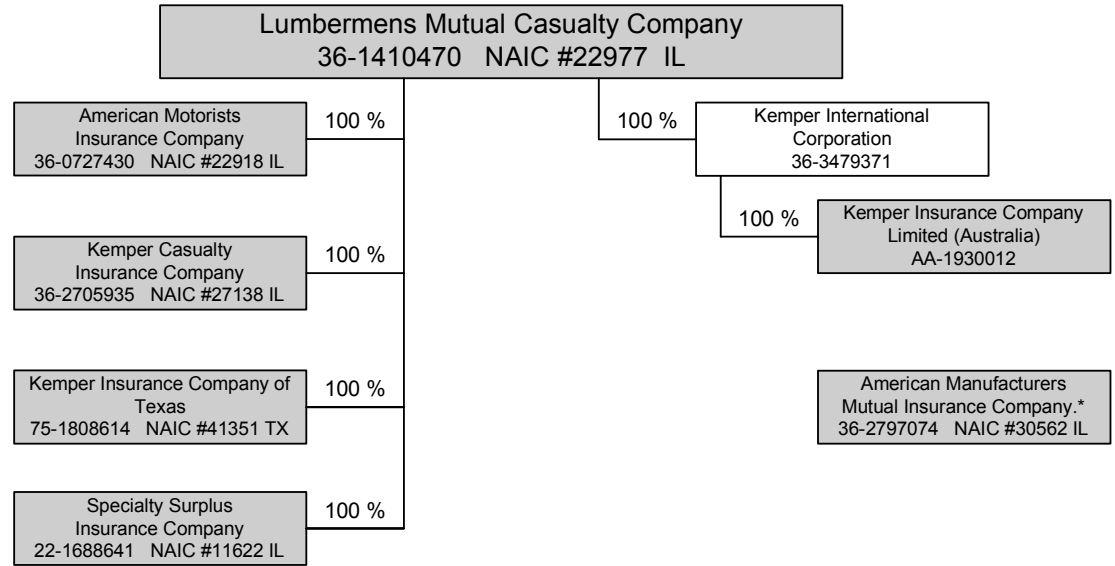
(a) Insert the number of yes responses except for Canada and Other Alien.

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 an affiliated mutual company.
 Insurers are identified by shaded boxes. Percentages show common stock ownership as of 12/31/2007.

ALPHABETICAL INDEX

(http://www.naic.org/committees_e_app_blanks.htm)

ANNUAL STATEMENT BLANK

Assets	2
Cash Flow	5
Exhibit of Capital Gains (Losses)	12
Exhibit of Net Investment Income	12
Exhibit of Nonadmitted Assets	13
Exhibit of Premiums and Losses (State Page)	20
Five-Year Historical Data	18
General Interrogatories	16
Jurat Page	1
Liabilities, Surplus and Other Funds	3
Notes To Financial Statements	14
Overflow Page For Write-ins	109
Schedule A – Part 1	E01
Schedule A – Part 2	E02
Schedule A – Part 3	E03
Schedule A – Verification Between Years	21
Schedule B – Part 1	E04
Schedule B – Part 2	E05
Schedule B – Verification Between Years	21
Schedule BA – Part 1	E06
Schedule BA – Part 2	E07
Schedule BA – Verification Between Years	21
Schedule D – Part 1	E08
Schedule D – Part 1A – Section 1	23
Schedule D – Part 1A – Section 2	26
Schedule D – Part 2 – Section 1	E09
Schedule D – Part 2 – Section 2	E10
Schedule D – Part 3	E11
Schedule D – Part 4	E12
Schedule D – Part 5	E13
Schedule D – Part 6 – Section 1	E14
Schedule D – Part 6 – Section 2	E14
Schedule D – Summary By Country	22
Schedule D – Verification Between Years	22
Schedule DA – Part 1	E15
Schedule DA – Part 2 – Verification Between Years	29
Schedule DB – Part A – Section 1	E16
Schedule DB – Part A – Section 2	E16

ALPHABETICAL INDEX

(http://www.naic.org/committees_e_app_blanks.htm)

ANNUAL STATEMENT BLANK (Continued)

Schedule DB – Part A – Section 3	E17
Schedule DB – Part A – Verification Between Years	30
Schedule DB – Part B – Section 1	E17
Schedule DB – Part B – Section 2	E18
Schedule DB – Part B – Section 3	E18
Schedule DB – Part B – Verification Between Years	30
Schedule DB – Part C – Section 1	E19
Schedule DB – Part C – Section 2	E19
Schedule DB – Part C – Section 3	E20
Schedule DB – Part C – Verification Between Years	31
Schedule DB – Part D – Section 1	E20
Schedule DB – Part D – Section 2	E21
Schedule DB – Part D – Section 3	E21
Schedule DB – Part D – Verification Between Years	31
Schedule DB – Part E – Section 1	E22
Schedule DB – Part E – Verification	31
Schedule DB – Part F – Section 1	32
Schedule DB – Part F – Section 2	33
Schedule E – Part 1 – Cash	E23
Schedule E – Part 2 – Cash Equivalents	E24
Schedule E – Part 3 – Special Deposits	E25
Schedule F – Part 1	34
Schedule F – Part 2	35
Schedule F – Part 3	36
Schedule F – Part 4	37
Schedule F – Part 5	38
Schedule F – Part 6	39
Schedule F – Part 7	40
Schedule F – Part 8	41
Schedule H – Accident and Health Exhibit – Part 1	42
Schedule H – Part 5 – Health Claims	44
Schedule H – Parts – 2, 3, and 4	43
Schedule P – Part 1 – Analysis of Losses and Loss Expenses	45
Schedule P – Part 1A – Homeowners/Farmowners	47
Schedule P – Part 1B – Private Passenger Auto Liability/Medical	48
Schedule P – Part 1C – Commercial Auto/Truck Liability/Medical	49
Schedule P – Part 1D – Workers' Compensation	50
Schedule P – Part 1E – Commercial Multiple Peril	51
Schedule P – Part 1F – Section 1 – Medical Malpractice – Occurrence	52
Schedule P – Part 1F – Section 2 – Medical Malpractice – Claims-Made	53
Schedule P – Part 1G - Special Liability (Ocean, Marine, Aircraft (All Perils), Boiler and Machinery)	54

ALPHABETICAL INDEX

(http://www.naic.org/committees_e_app_blanks.htm)

ANNUAL STATEMENT BLANK (Continued)

Schedule P – Part 1H – Section 1 – Other Liability–Occurrence	55
Schedule P – Part 1H – Section 2 – Other Liability – Claims-Made	56
Schedule P – Part 1I – Special Property (Fire, Allied Lines, Inland Marine, Earthquake, Burglary & Theft)	57
Schedule P – Part 1J – Auto Physical Damage	58
Schedule P – Part 1K – Fidelity/Surety	59
Schedule P – Part 1L – Other (Including Credit, Accident and Health)	60
Schedule P – Part 1M – International	61
Schedule P – Part 1N – Reinsurance	62
Schedule P – Part 1O – Reinsurance	63
Schedule P – Part 1P – Reinsurance	64
Schedule P – Part 1R – Section 1 – Products Liability – Occurrence	65
Schedule P – Part 1R – Section 2 – Products Liability – Claims – Made	66
Schedule P – Part 1S – Financial Guaranty/Mortgage Guaranty	67
Schedule P – Part 2A – Homeowners/Farmowners	68
Schedule P – Part 2B – Private Passenger Auto Liability/Medical	68
Schedule P – Part 2C – Commercial Auto/Truck Liability/Medical	68
Schedule P – Part 2D – Workers' Compensation	68
Schedule P – Part 2E – Commercial Multiple Peril	68
Schedule P – Part 2F – Section 1 – Medical Malpractice – Occurrence	69
Schedule P – Part 2F – Section 2 – Medical Malpractice – Claims – Made	69
Schedule P – Part 2G – Special Liability (Ocean Marine, Aircraft (All Perils), Boiler and Machinery)	69
Schedule P – Part 2H – Section 1 – Other Liability – Occurrence	69
Schedule P – Part 2H – Section 2 – Other Liability – Claims – Made	69
Schedule P – Part 2I – Special Property (Fire, Allied Lines, Inland Marine, Earthquake, Burglary, and Theft)	70
Schedule P – Part 2J – Auto Physical Damage	70
Schedule P – Part 2K – Fidelity, Surety	70
Schedule P – Part 2L – Other (Including Credit, Accident and Health)	70
Schedule P – Part 2M – International	70
Schedule P – Part 2N – Reinsurance	71
Schedule P – Part 2O – Reinsurance	71
Schedule P – Part 2P – Reinsurance	71
Schedule P – Part 2R – Section 1 – Products Liability – Occurrence	72
Schedule P – Part 2R – Section 2 – Products Liability – Claims-Made	72
Schedule P – Part 2S – Financial Guaranty/Mortgage Guaranty	72
Schedule P – Part 3A – Homeowners/Farmowners	73
Schedule P – Part 3B – Private Passenger Auto Liability/Medical	73
Schedule P – Part 3C – Commercial Auto/Truck Liability/Medical	73
Schedule P – Part 3D – Workers' Compensation	73
Schedule P – Part 3E – Commercial Multiple Peril	73
Schedule P – Part 3F – Section 1 –Medical Malpractice – Occurrence	74
Schedule P – Part 3F – Section 2 – Medical Malpractice – Claims-Made	74

ALPHABETICAL INDEX

(http://www.naic.org/committees_e_app_blanks.htm)

ANNUAL STATEMENT BLANK (Continued)

Schedule P – Part 3G – Special Liability (Ocean Marine, Aircraft (All Perils), Boiler and Machinery)	74
Schedule P – Part 3H – Section 1 – Other Liability – Occurrence	74
Schedule P – Part 3H – Section 2 – Other Liability – Claims-Made	74
Schedule P – Part 3I – Special Property (Fire, Allied Lines, Inland Marine, Earthquake, Burglary, and Theft)	75
Schedule P – Part 3J – Auto Physical Damage	75
Schedule P – Part 3K – Fidelity/Surety	75
Schedule P – Part 3L – Other (Including Credit, Accident and Health)	75
Schedule P – Part 3M – International	75
Schedule P – Part 3N – Reinsurance	76
Schedule P – Part 3O – Reinsurance	76
Schedule P – Part 3P – Reinsurance	76
Schedule P – Part 3R – Section 1 – Products Liability – Occurrence	77
Schedule P – Part 3R – Section 2 – Products Liability – Claims-Made	77
Schedule P – Part 3S – Financial Guaranty/Mortgage Guaranty	77
Schedule P – Part 4A – Homeowners/Farmowners	78
Schedule P – Part 4B – Private Passenger Auto Liability/Medical	78
Schedule P – Part 4C – Commercial Auto/Truck Liability/Medical	78
Schedule P – Part 4D – Workers' Compensation	78
Schedule P – Part 4E – Commercial Multiple Peril	78
Schedule P – Part 4F – Section 1 – Medical Malpractice – Occurrence	79
Schedule P – Part 4F – Section 2 – Medical Malpractice – Claims-Made	79
Schedule P – Part 4G – Special Liability (Ocean Marine, Aircraft (All Perils), Boiler and Machinery)	79
Schedule P – Part 4H – Section 1 – Other Liability – Occurrence	79
Schedule P – Part 4H – Section 2 – Other Liability – Claims-Made	79
Schedule P – Part 4I – Special Property (Fire, Allied Lines, Inland Marine, Earthquake, Burglary and Theft)	80
Schedule P – Part 4J – Auto Physical Damage	80
Schedule P – Part 4K – Fidelity/Surety	80
Schedule P – Part 4L – Other (Including Credit, Accident and Health)	80
Schedule P – Part 4M – International	80
Schedule P – Part 4N – Reinsurance	81
Schedule P – Part 4O – Reinsurance	81
Schedule P – Part 4P – Reinsurance	81
Schedule P – Part 4R – Section 1 – Products Liability – Occurrence	82
Schedule P – Part 4R – Section 2 – Products Liability – Claims-Made	82
Schedule P – Part 4S – Financial Guaranty/Mortgage Guaranty	82
Schedule P – Part 5A – Homeowners/Farmowners	83
Schedule P – Part 5B – Private Passenger Auto Liability/Medical	84
Schedule P – Part 5C – Commercial Auto/Truck Liability/Medical	85
Schedule P – Part 5D – Workers' Compensation	86
Schedule P – Part 5E – Commercial Multiple Peril	87
Schedule P – Part 5F – Medical Malpractice – Claims-Made	89

ALPHABETICAL INDEX

(http://www.naic.org/committees_e_app_blanks.htm)

ANNUAL STATEMENT BLANK (Continued)

Schedule P – Part 5F – Medical Malpractice – Occurrence	88
Schedule P – Part 5H – Other Liability – Claims-Made	91
Schedule P – Part 5H – Other Liability – Occurrence	90
Schedule P – Part 5R – Products Liability – Claims-Made	93
Schedule P – Part 5R – Products Liability – Occurrence	92
Schedule P – Part 6C – Commercial Auto/Truck Liability/Medical	94
Schedule P – Part 6D – Workers' Compensation	94
Schedule P – Part 6E – Commercial Multiple Peril	95
Schedule P – Part 6H – Other Liability – Claims-Made	96
Schedule P – Part 6H – Other Liability – Occurrence	95
Schedule P – Part 6M – International	96
Schedule P – Part 6N – Reinsurance	97
Schedule P – Part 6O – Reinsurance	97
Schedule P – Part 6R – Products Liability – Claims-Made	98
Schedule P – Part 6R – Products Liability – Occurrence	98
Schedule P – Part 7A – Primary Loss Sensitive Contracts	99
Schedule P – Part 7B – Reinsurance Loss Sensitive Contracts	101
Schedule P – Parts 2, 3 and 4 – Summary	46
Schedule P Interrogatories	103
Schedule T – Exhibit of Premiums Written	104
Schedule T – Part 2 – Interstate Compact	105
Schedule Y – Information Concerning Activities of Insurer Members of a Holding Company Group	106
Schedule Y – Part 2 – Summary of Insurer's Transactions With Any Affiliates	107
Statement of Income	4
Summary Investment Schedule	15
Underwriting and Investment Exhibit Part 1	6
Underwriting and Investment Exhibit Part 1A	7
Underwriting and Investment Exhibit Part 1B	8
Underwriting and Investment Exhibit Part 2	9
Underwriting and Investment Exhibit Part 2A	10
Underwriting and Investment Exhibit Part 3	11

