



ANNUAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011
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 Corporate Drive, Suite 200, Long Grove, IL 60049-0001
Main Administrative Office 1 Corporate Drive, Suite 200, Lake Zurich, IL 60047-8945, 847-320-2000
Mail Address 1 Corporate Drive, Suite 200, Lake Zurich, IL 60047-8945
Primary Location of Books and Records 1 Corporate Drive, Suite 200, Lake Zurich, IL 60047-8945, 847-320-3127
Internet Website Address www.lmcco.com
Statutory Statement Contact Fredrick Thomas Griffith, 847-320-3127
Fred.Griffith@lmcco.com, 847-320-3818

OFFICERS

Name Title Name Title
Douglas Sean Andrews, President and CEO John Keating Conway, Secretary
Fredrick Thomas Griffith, Chief Financial Officer Geoffrey Andrew Cooke, Treasurer

OTHER OFFICERS

Barbara Kay Murray, Senior Vice President

DIRECTORS OR TRUSTEES

Douglas Sean Andrews, Peter Bannerman Hamilton, George Ralph Lewis, Arthur James Massolo
David Barrett Mathis

State of Illinois

County of Lake ss

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

Douglas Sean Andrews
President and CEO

John Keating Conway
Secretary

Fredrick Thomas Griffith
Chief Financial Officer

Subscribed and sworn to before me this
17th day of February, 2012

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 2011 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).....	578,122,405		578,122,405	626,204,457
2. Stocks (Schedule D):				
2.1 Preferred stocks .....	0		0	0
2.2 Common stocks .....	59,392,833		59,392,833	61,256,203
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens .....			0	0
3.2 Other than first liens .....			0	0
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ ..... encumbrances).....			0	0
4.2 Properties held for the production of income (less \$ ..... encumbrances) .....			0	0
4.3 Properties held for sale (less \$ ..... encumbrances) .....			0	0
5. Cash (\$ .....7,224,738 , Schedule E - Part 1), cash equivalents (\$ .....0 , Schedule E - Part 2) and short-term investments (\$ .....87,192,967 , Schedule DA).....	94,417,705		94,417,705	45,385,011
6. Contract loans (including \$ ..... premium notes).....			0	0
7. Derivatives (Schedule DB).....			0	0
8. Other invested assets (Schedule BA).....	13,398,852		13,398,852	13,253,905
9. Receivables for securities .....			0	378,263
10. Securities lending reinvested collateral assets (Schedule DL).....			0	0
11. Aggregate write-ins for invested assets .....	0	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11) .....	745,331,795	0	745,331,795	746,477,839
13. Title plants less \$ ..... charged off (for Title insurers only).....			0	0
14. Investment income due and accrued .....	5,341,075		5,341,075	6,418,300
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection .....	(240,733)	1,572,650	(1,813,383)	(3,050,071)
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ ..... earned but unbilled premiums).....	3,337,373	11,880	3,325,493	4,647,902
15.3 Accrued retrospective premiums.....	5,453,039	161,588	5,291,451	6,970,533
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers .....	18,764,149		18,764,149	48,274,309
16.2 Funds held by or deposited with reinsured companies .....	17,145,878		17,145,878	17,421,859
16.3 Other amounts receivable under reinsurance contracts .....			0	0
17. Amounts receivable relating to uninsured plans .....			0	0
18.1 Current federal and foreign income tax recoverable and interest thereon .....	120,661		120,661	130,378
18.2 Net deferred tax asset.....			0	0
19. Guaranty funds receivable or on deposit .....			0	0
20. Electronic data processing equipment and software.....	889,731		889,731	1,053,688
21. Furniture and equipment, including health care delivery assets (\$ ..... ) .....			0	0
22. Net adjustment in assets and liabilities due to foreign exchange rates .....			0	6,553
23. Receivables from parent, subsidiaries and affiliates .....	464,837	5,662	459,175	543,099
24. Health care (\$ ..... ) and other amounts receivable.....			0	0
25. Aggregate write-ins for other than invested assets .....	62,130,262	420,425	61,709,837	71,660,791
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25).....	858,738,067	2,172,205	856,565,862	900,555,180
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	0
28. Total (Lines 26 and 27)	858,738,067	2,172,205	856,565,862	900,555,180
<b>DETAILS OF WRITE-INS</b>				
1101. ....				
1102. ....				
1103. ....				
1198. Summary of remaining write-ins for Line 11 from overflow page .....	0	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)	0	0	0	0
2501. Amounts receivable under high deductible policies.....	570,772	176,398	394,374	3,289,290
2502. Advance to claims service provider.....	6,007,891		6,007,891	6,358,668
2503. Other assets.....	55,551,599	244,027	55,307,572	62,012,833
2598. Summary of remaining write-ins for Line 25 from overflow page .....	0	0	0	0
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	62,130,262	420,425	61,709,837	71,660,791

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 35, Column 8) .....	495,279,683	507,745,337
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6) .....	13,984,188	11,787,683
3. Loss adjustment expenses (Part 2A, Line 35, Column 9) .....	177,054,887	179,014,511
4. Commissions payable, contingent commissions and other similar charges .....	38,528	(60,619)
5. Other expenses (excluding taxes, licenses and fees) .....	4,896,248	8,714,647
6. Taxes, licenses and fees (excluding federal and foreign income taxes) .....	5,278,658	6,847,264
7.1 Current federal and foreign income taxes (including \$ ..... on realized capital gains (losses)) .....		0
7.2 Net deferred tax liability .....		0
8. Borrowed money \$ ..... and interest thereon \$ .....		0
9. Unearned premiums (Part 1A, Line 38, Column 5) (after deducting unearned premiums for ceded reinsurance of \$ .....704,555 and including warranty reserves of \$ .....123 and accrued accident and health experience rating refunds including \$ .....for medical loss ratio rebate per the Public Health Service Act) .....	1,412,932	1,491,220
10. Advance premium .....		0
11. Dividends declared and unpaid:		
11.1 Stockholders .....		0
11.2 Policyholders .....		0
12. Ceded reinsurance premiums payable (net of ceding commissions) .....	1,405,381	825,901
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19) .....	6,487,729	7,601,274
14. Amounts withheld or retained by company for account of others .....	37,266,395	49,074,264
15. Remittances and items not allocated .....	1,086,594	666,498
16. Provision for reinsurance (Schedule F, Part 7) .....	0	0
17. Net adjustments in assets and liabilities due to foreign exchange rates .....		0
18. Drafts outstanding .....		0
19. Payable to parent, subsidiaries and affiliates .....		0
20. Derivatives .....		0
21. Payable for securities .....		0
22. Payable for securities lending .....		0
23. Liability for amounts held under uninsured plans .....		0
24. Capital notes \$ ..... and interest thereon \$ .....		0
25. Aggregate write-ins for liabilities .....	81,242,881	91,982,549
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25) .....	825,434,104	865,690,529
27. Protected cell liabilities .....		0
28. Total liabilities (Lines 26 and 27) .....	825,434,104	865,690,529
29. Aggregate write-ins for special surplus funds .....	0	0
30. Common capital stock .....		0
31. Preferred capital stock .....		0
32. Aggregate write-ins for other than special surplus funds .....	1,500,000	1,500,000
33. Surplus notes .....	698,355,598	698,355,598
34. Gross paid in and contributed surplus .....		0
35. Unassigned funds (surplus) .....	(668,723,840)	(664,990,947)
36. Less treasury stock, at cost:		
36.1 ..... shares common (value included in Line 30 \$ .....)		0
36.2 ..... shares preferred (value included in Line 31 \$ .....)		0
37. Surplus as regards policyholders (Lines 29 to 35, less 36) (Page 4, Line 39) .....	31,131,758	34,864,651
38. Totals (Page 2, Line 28, Col. 3) .....	856,565,862	900,555,180
<b>DETAILS OF WRITE-INS</b>		
2501. Accounts payable and other liabilities .....	24,272,583	34,958,875
2502. Deferred credit - prescribed accounting practices .....	56,970,298	57,023,674
2503. ....		
2598. Summary of remaining write-ins for Line 25 from overflow page .....	0	0
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above) .....	81,242,881	91,982,549
2901. ....		
2902. ....		
2903. ....		
2998. Summary of remaining write-ins for Line 29 from overflow page .....	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above) .....	0	0
3201. Guaranty fund .....	1,500,000	1,500,000
3202. ....		
3203. ....		
3298. Summary of remaining write-ins for Line 32 from overflow page .....	0	0
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 above) .....	1,500,000	1,500,000

**ANNUAL STATEMENT FOR THE YEAR 2011 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY**

**STATEMENT OF INCOME**

	1 Current Year	2 Prior Year
<b>UNDERWRITING INCOME</b>		
1. Premiums earned (Part 1, Line 35, Column 4) .....	1,106,629	1,174,429
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 35, Column 7) .....	(11,384,780)	(15,667,273)
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1) .....	46,137,682	16,886,067
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2) .....	32,561,983	39,922,350
5. Aggregate write-ins for underwriting deductions .....	(189,944)	(137,989)
6. Total underwriting deductions (Lines 2 through 5) .....	67,124,941	41,003,155
7. Net income of protected cells .....	.0	.0
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7) .....	(66,018,312)	(39,828,726)
<b>INVESTMENT INCOME</b>		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17) .....	21,782,775	26,979,669
10. Net realized capital gains (losses) less capital gains tax of \$ ..... (Exhibit of Capital Gains (Losses)) .....	4,760,674	4,233,407
11. Net investment gain (loss) (Lines 9 + 10) .....	26,543,449	31,213,076
<b>OTHER INCOME</b>		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ ..... 8,775 amount charged off \$ ..... (810,595) ) .....	819,370	5,322,042
13. Finance and service charges not included in premiums .....	.0	.0
14. Aggregate write-ins for miscellaneous income .....	22,611,596	9,569,746
15. Total other income (Lines 12 through 14) .....	23,430,966	14,891,788
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15) .....	(16,043,897)	6,276,138
17. Dividends to policyholders .....	83,258	(1,290,894)
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) .....	(16,127,155)	7,567,032
19. Federal and foreign income taxes incurred .....	(62,146)	(475,145)
20. Net income (Line 18 minus Line 19) (to Line 22) .....	(16,065,009)	8,042,177
<b>CAPITAL AND SURPLUS ACCOUNT</b>		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2) .....	34,864,651	8,123,278
22. Net income (from Line 20) .....	(16,065,009)	8,042,177
23. Net transfers (to) from Protected Cell accounts .....	.0	.0
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ .....	(1,382,169)	9,318,654
25. Change in net unrealized foreign exchange capital gain (loss) .....	(6,554)	440,850
26. Change in net deferred income tax .....	.0	.0
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 28, Col. 3) .....	5,100,938	1,829,239
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 36.1 and 36.2, Column 2 minus Column 1) .....	.0	.0
37. Aggregate write-ins for gains and losses in surplus .....	8,619,901	7,110,453
38. Change in surplus as regards policyholders for the year (Lines 22 through 37) .....	(3,732,893)	26,741,373
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 37) .....	31,131,758	34,864,651
<b>DETAILS OF WRITE-INS</b>		
0501. Change in premium deficiency reserve .....	(189,944)	(137,989)
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) .....	(189,944)	(137,989)
1401. Other income .....	22,611,596	9,569,746
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) .....	22,611,596	9,569,746
3701. Provision for uncollectible reinsurance .....	8,619,901	7,110,453
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) .....	8,619,901	7,110,453

## CASH FLOW

	1 Current Year	2 Prior Year
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance.....	3,074,211	8,751,649
2. Net investment income.....	26,121,557	30,722,089
3. Miscellaneous income.....	23,706,948	8,653,964
4. Total (Lines 1 through 3).....	52,902,716	48,127,702
5. Benefit and loss related payments.....	(30,625,791)	130,541,481
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions.....	85,751,703	96,559,789
8. Dividends paid to policyholders.....	(1,580,016)	(4,143,138)
9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses).....	(71,863)	(728,164)
10. Total (Lines 5 through 9).....	53,474,033	222,229,968
11. Net cash from operations (Line 4 minus Line 10).....	(571,317)	(174,102,266)
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	201,427,251	246,657,863
12.2 Stocks.....	2,157,269	1,196,848
12.3 Mortgage loans.....	0	0
12.4 Real estate.....	0	0
12.5 Other invested assets.....	915,036	364,033
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	0	155
12.7 Miscellaneous proceeds.....	410,949	0
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	204,910,505	248,218,899
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	153,662,136	67,631,936
13.2 Stocks.....	0	0
13.3 Mortgage loans.....	0	0
13.4 Real estate.....	0	0
13.5 Other invested assets.....	1,029,240	0
13.6 Miscellaneous applications.....	0	378,263
13.7 Total investments acquired (Lines 13.1 to 13.6).....	154,691,376	68,010,199
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).....	50,219,129	180,208,700
<b>Cash from Financing and Miscellaneous Sources</b>		
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).....	(615,118)	(20,056,184)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	(615,118)	(20,056,184)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17).....	49,032,694	(13,949,750)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	45,385,011	59,334,761
19.2 End of year (Line 18 plus Line 19.1).....	94,417,705	45,385,011

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 1 - PREMIUMS EARNED**

Line of Business		1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1.	Fire .....	0	0	0	0
2.	Allied lines .....	0	0	0	0
3.	Farmowners multiple peril .....	0	0	0	0
4.	Homeowners multiple peril .....	0	0	0	0
5.	Commercial multiple peril .....	(4,003)	80,396	77,436	(1,043)
6.	Mortgage guaranty .....	0	0	0	0
8.	Ocean marine .....	0	0	0	0
9.	Inland marine .....	200	849	262	787
10.	Financial guaranty .....	0	0	0	0
11.1	Medical professional liability - occurrence .....	0	0	0	0
11.2	Medical professional liability - claims-made .....	0	0	0	0
12.	Earthquake .....	0	0	0	0
13.	Group accident and health .....	0	0	0	0
14.	Credit accident and health (group and individual) .....	0	0	0	0
15.	Other accident and health .....	809	0	0	809
16.	Workers' compensation .....	146,144	284	146	146,282
17.1	Other liability - occurrence .....	3,910	10,841	775	13,976
17.2	Other liability - claims-made .....	0	537,931	696,839	(158,908)
17.3	Excess workers' compensation .....	240	0	0	240
18.1	Products liability - occurrence .....	(1,126)	117,246	110,111	6,009
18.2	Products liability - claims-made .....	0	0	0	0
19.1,19.2	Private passenger auto liability .....	0	0	0	0
19.3,19.4	Commercial auto liability .....	11,339	0	0	11,339
21.	Auto physical damage .....	4,018	0	0	4,018
22.	Aircraft (all perils) .....	(348)	0	0	(348)
23.	Fidelity .....	0	0	0	0
24.	Surety .....	867,158	709,851	527,240	1,049,769
26.	Burglary and theft .....	0	0	0	0
27.	Boiler and machinery .....	0	0	0	0
28.	Credit .....	0	0	0	0
29.	International .....	0	0	0	0
30.	Warranty .....	0	33,822	123	33,699
31.	Reinsurance - nonproportional assumed property .....	0	0	0	0
32.	Reinsurance - nonproportional assumed liability .....	0	0	0	0
33.	Reinsurance - nonproportional assumed financial Lines .....	0	0	0	0
34.	Aggregate write-ins for other lines of business .....	0	0	0	0
35.	<b>TOTALS</b>	<b>1,028,341</b>	<b>1,491,220</b>	<b>1,412,932</b>	<b>1,106,629</b>
<b>DETAILS OF WRITE-INS</b>					
3401.	.....				
3402.	.....				
3403.	.....				
3498.	Sum. of remaining write-ins for Line 34 from overflow page .....	0	0	0	0
3499.	Totals (Lines 3401 through 3403 + 3498) (Line 34 above)	0	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1A - RECAPITULATION OF ALL PREMIUMS

Line of Business		1 Amount Unearned (Running One Year or Less from Date of Policy) (a)	2 Amount Unearned (Running More Than One Year from Date of Policy) (a)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1.	Fire .....					0
2.	Allied lines .....					0
3.	Farmowners multiple peril .....					0
4.	Homeowners multiple peril .....					0
5.	Commercial multiple peril .....	77,436				77,436
6.	Mortgage guaranty .....					0
8.	Ocean marine .....					0
9.	Inland marine .....		262			262
10.	Financial guaranty .....					0
11.1	Medical professional liability - occurrence .....					0
11.2	Medical professional liability - claims-made .....					0
12.	Earthquake .....					0
13.	Group accident and health .....					0
14.	Credit accident and health (group and individual) .....					0
15.	Other accident and health .....					0
16.	Workers' compensation .....	146				146
17.1	Other liability - occurrence .....		775			775
17.2	Other liability - claims-made .....		696,839			696,839
17.3	Excess workers' compensation .....					0
18.1	Products liability - occurrence .....		110,111			110,111
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 .....	488,685	38,555			527,240
26.	Burglary and theft .....					0
27.	Boiler and machinery .....					0
28.	Credit .....					0
29.	International .....					0
30.	Warranty .....		123			123
31.	Reinsurance - nonproportional assumed property .....					0
32.	Reinsurance - nonproportional assumed liability .....					0
33.	Reinsurance - nonproportional assumed financial lines .....					0
34.	Aggregate write-ins for other lines of business .....	0	0	0	0	0
35.	TOTALS	566,267	846,665	0	0	1,412,932
36.	Accrued retrospective premiums based on experience .....					
37.	Earned but unbilled premiums .....					
38.	Balance (Sum of Lines 35 through 37)					1,412,932
<b>DETAILS OF WRITE-INS</b>						
3401.	.....					
3402.	.....					
3403.	.....					
3498.	Sum. of remaining write-ins for Line 34 from overflow page .....	0	0	0	0	0
3499.	Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)	0	0	0	0	0

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B - PREMIUMS WRITTEN

Line of Business	1 Direct Business (a)	Reinsurance Assumed		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			5,324		5,324	0
2. Allied lines			68,587		68,587	0
3. Farmowners multiple peril						0
4. Homeowners multiple peril		(37)			(37)	0
5. Commercial multiple peril		157,113	448,966		610,082	(4,003)
6. Mortgage guaranty						0
8. Ocean marine						0
9. Inland marine	37,900	100	(165,885)		(128,085)	200
10. Financial guaranty						0
11.1 Medical professional liability - occurrence						0
11.2 Medical professional liability - claims-made						0
12. Earthquake						0
13. Group accident and health						0
14. Credit accident and health (group and individual)						0
15. Other accident and health	24,125				23,316	809
16. Workers' compensation	480,451	371,600	37,586		743,493	146,144
17.1 Other liability - occurrence	2,584	3,606	1,150,248		1,152,528	3,910
17.2 Other liability - claims-made			12,870		12,870	0
17.3 Excess workers' compensation	240					240
18.1 Products liability - occurrence	3,993	(5,286)	2,008,250		2,008,083	(1,126)
18.2 Products liability - claims-made						0
19.1,19.2 Private passenger auto liability						0
19.3,19.4 Commercial auto liability	(2,335)	(83,602)	(202,763)		(300,039)	11,339
21. Auto physical damage	2,307	(62,343)	(285,767)		(349,821)	4,018
22. Aircraft (all perils)			(370)		(22)	(348)
23. Fidelity						0
24. Surety	155,288	729,177	10,991	28,298		867,158
26. Burglary and theft						0
27. Boiler and machinery						0
28. Credit						0
29. International						0
30. Warranty						0
31. Reinsurance - nonproportional assumed property	XXX					0
32. Reinsurance - nonproportional assumed liability	XXX		(3,695,883)		(3,695,883)	0
33. Reinsurance - nonproportional assumed financial lines	XXX					0
34. Aggregate write-ins for other lines of business	0	0	0	0	0	0
35. TOTALS	704,553	1,110,328	(607,846)	28,298	150,396	1,028,341
<b>DETAILS OF WRITE-INS</b>						
3401.						
3402.						
3403.						
3498. Sum. of remaining write-ins for Line 34 from overflow page	0	0	0	0	0	0
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34 above)	0	0	0	0	0	0

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

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

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



**ANNUAL STATEMENT FOR THE YEAR 2011 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		7,246	7,246	.0	96,813	101,373	(4,560)	0.0
2. Allied lines	(92)	(7,738)	(7,738)	(92)	(71)	1,191	(1,354)	0.0
3. Farmowners multiple peril				.0	.0	.0	.0	0.0
4. Homeowners multiple peril	355,215	54,374	388,221	21,368	97,602	614,687	(495,717)	0.0
5. Commercial multiple peril	546,669	2,689,066	1,061,994	2,173,741	27,274,014	29,519,137	(71,382)	6,843.9
6. Mortgage guaranty				.0	.0	.0	.0	0.0
8. Ocean marine		85,492	25,921	59,571	17,517	22,732	54,356	0.0
9. Inland marine	5,313	9,985	185,866	(170,568)	198,871	208,456	(180,153)	(22,891.1)
10. Financial guaranty				.0	.0	.0	.0	0.0
11.1 Medical professional liability - occurrence				.0	43,778	42,397	1,381	0.0
11.2 Medical professional liability - claims-made		4,595	4,595	.0	471	21,700	(21,229)	0.0
12. Earthquake				.0	(75,199)	(70,796)	(4,403)	0.0
13. Group accident and health	4,068,655	226,101	46,347	4,248,409	21,128,692	24,709,369	667,732	0.0
14. Credit accident and health (group and individual)				.0	.0	.0	.0	0.0
15. Other accident and health	4,002		194	3,808	54,644	54,644	3,808	470.7
16. Workers' compensation	32,428,560	69,244,592	107,298,329	(5,625,177)	406,384,036	426,368,187	(25,609,328)	(17,506.8)
17.1 Other liability - occurrence	2,077,412	14,624,323	13,189,961	3,511,774	6,450,859	11,362,248	(1,399,615)	(10,014.4)
17.2 Other liability - claims-made	836,997	1,772,284	7,889,079	(5,279,798)	20,563,802	19,054,298	(3,770,294)	2,372.6
17.3 Excess workers' compensation	1,361,068	1,211,195	539,874	2,032,389	7,501,191	8,779,665	753,915	314,131.3
18.1 Products liability - occurrence	1,168,868	5,464,522	18,675,785	(12,042,395)	2,867,779	(8,140,406)	(1,034,210)	(17,211.0)
18.2 Products liability - claims-made				.0	2,746	635	2,111	0.0
19.1,19.2 Private passenger auto liability	1,743,944	385,889	1,525,537	604,296	931,522	936,199	599,619	0.0
19.3,19.4 Commercial auto liability	1,351,384	923,595	2,159,617	115,362	(1,962,613)	(1,115,920)	(731,331)	(6,449.7)
21. Auto physical damage	(12,179)	(32,132)	(18,999)	(25,312)	(2,105)	(106,484)	79,067	1,967.8
22. Aircraft (all perils)	704,497	442,911	712,526	434,882	(213,681)	1,675,629	(1,454,428)	417,939.1
23. Fidelity	(26,044)	(8,525)	(7,513)	(27,056)	6,987	(67,378)	47,309	0.0
24. Surety	(3,505,532)	1,194,777	(1,335,890)	(974,865)	15,331,352	4,243,886	10,112,601	963.3
26. Burglary and theft				.0	.0	.0	.0	0.0
27. Boiler and machinery				.0	(7,264)	(7,231)	(33)	0.0
28. Credit				.0	.0	.0	.0	0.0
29. International				.0	.0	.0	.0	0.0
30. Warranty		176,185		176,185	.1	3,254	172,932	513.2
31. Reinsurance - nonproportional assumed property	XXX			.0	(258,051)	(259,209)	1,158	0.0
32. Reinsurance - nonproportional assumed liability	XXX	11,294,452	(549,900)	11,844,352	45,816,288	46,816,748	10,843,892	0.0
33. Reinsurance - nonproportional assumed financial lines	XXX			.0	.0	.0	.0	0.0
34. Aggregate write-ins for other lines of business	0	0	0	0	(56,970,298)	(57,023,674)	53,376	0.0
35. TOTALS	43,108,737	109,763,189	151,791,052	1,080,874	495,279,683	507,745,337	(11,384,780)	(1,028.8)
<b>DETAILS OF WRITE-INS</b>								
3401. Prescribed accounting practices				.0	(56,970,298)	(57,023,674)	53,376	0.0
3402.								
3403.								
3498. Sum. of remaining write-ins for Line 34 from overflow page	.0	.0	.0	.0	.0	.0	.0	0.0
3499. Totals (Lines 3401 through 3403 + 3498) (Line 34 above)	0	0	0	0	(56,970,298)	(57,023,674)	53,376	0.0

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**ANNUAL STATEMENT FOR THE YEAR 2011 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 Net 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	15,038	9,278	9,767	14,549	(3)	85,424	3,157	96,813	(2,422)
2. Allied lines	48	1,868	1,889	27		951	1,049	(71)	28
3. Farmowners multiple peril				0				0	
4. Homeowners multiple peril	90,543	125,998	101,542	114,999	(183)	10,193	27,407	97,602	57,465
5. Commercial multiple peril	2,029,123	10,749,664	728,111	12,050,676	301,414	15,064,911	142,987	27,274,014	15,829,846
6. Mortgage guaranty				0				0	
8. Ocean marine	30	22,724		22,754	(4)	(5,233)		17,517	21,735
9. Inland marine	252,249	40,149	292,268	130	(1,412)	221,941	21,788	198,871	(197,003)
10. Financial guaranty				0				0	
11.1 Medical professional liability - occurrence	20,000	51,721	24,099	47,622	(4,531)	1,221	534	43,778	28,024
11.2 Medical professional liability - claims-made	20	34,588	33,990	618	(166)	11,901	11,882	471	1,144
12. Earthquake		1,695	1,695	0		(74,347)	852	(75,199)	(1)
13. Group accident and health	25,083,561	489,687		25,573,248	(3,971,700)	(13,099)	459,757	(a) 21,128,692	570,537
14. Credit accident and health (group and individual)				0				0	
15. Other accident and health				0		54,644		(a) 54,644	12
16. Workers' compensation	250,020,947	505,611,218	155,493,483	600,138,682	7,577,472	(83,641,061)	117,691,057	406,384,036	125,175,470
17.1 Other liability - occurrence	13,284,931	8,945,030	9,592,794	12,637,167	8,400,880	4,464,215	19,051,403	6,450,859	11,588,199
17.2 Other liability - claims-made	12,476,888	9,524,485	7,193,726	14,807,647	3,939,573	4,644,015	2,827,433	20,563,802	3,516,300
17.3 Excess workers' compensation	9,171,031	4,267,441	2,791,003	10,647,469	(861,707)	634,311	2,918,882	7,501,191	2,004,439
18.1 Products liability - occurrence	7,595,928	6,364,381	3,668,927	10,291,382	1,005,778	(3,017,959)	5,411,422	2,867,779	20,407,169
18.2 Products liability - claims-made				0		53	930	2,746	4,231
19.1,19.2 Private passenger auto liability	1,939,498	2,207,298	2,728,885	1,417,911	851,586	(971,456)	366,519	931,522	323,870
19.3,19.4 Commercial auto liability	625,446	1,111,950	1,312,308	425,088	(8,380,556)	6,242,180	249,325	(1,962,613)	80,153
21. Auto physical damage	570	8,608	11,854	(2,676)	224	13,491	13,144	(2,105)	(293)
22. Aircraft (all perils)	26,260,447	809,097	26,339,862	729,682	652,141	(548,884)	1,046,620	(213,681)	433,968
23. Fidelity	4,703	2,437	203	6,937	(23)	(53)	(126)	6,987	4
24. Surety	1,005,704	21,337,265	(247,244)	22,590,213	(1,585,963)	(5,322,606)	350,292	15,331,352	1,848,337
26. Burglary and theft				0				0	
27. Boiler and machinery				0		(7,264)		(7,264)	0
28. Credit				0				0	
29. International				0				0	
30. Warranty		1	1	1				1	266
31. Reinsurance - nonproportional assumed property	XXX	1,386,725	1,386,725	0	XXX	(4,974,464)	(4,716,413)	(258,051)	183,015
32. Reinsurance - nonproportional assumed liability	XXX	46,007,480	10,574,493	35,432,987	XXX	22,175,056	11,791,755	45,816,288	92,411
33. Reinsurance - nonproportional assumed financial lines	XXX	0	0	0	XXX	0	0	0	0
34. Aggregate write-ins for other lines of business	0	0	0	0	(46,497,344)	(25,996,988)	(15,524,034)	(56,970,298)	(4,912,017)
35. TOTALS	349,876,705	619,110,788	222,040,380	746,947,113	(38,574,471)	(70,945,337)	142,147,622	495,279,683	177,054,887
<b>DETAILS OF WRITE-INS</b>									
3401. Prescribed accounting practices				0	(46,497,344)	(25,996,988)	(15,524,034)	(56,970,298)	(4,912,017)
3402.									
3403.									
3498. Sum. of remaining write-ins for Line 34 from overflow page	0	0	0	0	0	0	0	0	0
3499. Totals (Lines 3401 through 3403 + 3498) (Line 34 above)	0	0	0	0	(46,497,344)	(25,996,988)	(15,524,034)	(56,970,298)	(4,912,017)

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

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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 .....	10,945,810			10,945,810
1.2 Reinsurance assumed .....	9,507,715			9,507,715
1.3 Reinsurance ceded .....	(22,381,030)			(22,381,030)
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3) .....	42,834,555	0	0	42,834,555
2. Commission and brokerage:				
2.1 Direct, excluding contingent .....		2,720		2,720
2.2 Reinsurance assumed, excluding contingent .....		400,897		400,897
2.3 Reinsurance ceded, excluding contingent .....		655,752		655,752
2.4 Contingent-direct .....				0
2.5 Contingent-reinsurance assumed .....				0
2.6 Contingent-reinsurance ceded .....		886,009		886,009
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	(1,138,144)	0	(1,138,144)
3. Allowances to manager and agents .....				0
4. Advertising .....				0
5. Boards, bureaus and associations .....		(168,883)		(168,883)
6. Surveys and underwriting reports .....				0
7. Audit of assureds' records .....				0
8. Salary and related items:				
8.1 Salaries .....	2,594,276	17,009,784	354,553	19,958,613
8.2 Payroll taxes .....	181,342	1,010,230	13,148	1,204,720
9. Employee relations and welfare .....	348,810	1,070,897	20,314	1,440,021
10. Insurance .....		280,250		280,250
11. Directors' fees .....		108,981		108,981
12. Travel and travel items .....	37,986	100,848	12,088	150,922
13. Rent and rent items .....	132,455	2,216,201		2,348,656
14. Equipment .....	2,973	54,266		57,239
15. Cost or depreciation of EDP equipment and software .....		770,123		770,123
16. Printing and stationery .....	4,955	149,211	5,172	159,338
17. Postage, telephone and telegraph, exchange and express .....	7,597	462,105	1,682	471,384
18. Legal and auditing .....		3,386,273	584,516	3,970,789
19. Totals (Lines 3 to 18) .....	3,310,394	26,450,286	991,473	30,752,153
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ .....	(75,492)	1,532,829		1,532,829
20.2 Insurance department licenses and fees .....		584,456		584,456
20.3 Gross guaranty association assessments .....		(75,492)		(75,492)
20.4 All other (excluding federal and foreign income and real estate) .....		(58,551)		(58,551)
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4) .....	0	1,983,242	0	1,983,242
21. Real estate expenses .....				0
22. Real estate taxes .....				0
23. Reimbursements by uninsured plans .....				0
24. Aggregate write-ins for miscellaneous expenses .....	(7,267)	5,266,599	398,673	5,658,005
25. Total expenses incurred .....	46,137,682	32,561,983	1,390,146	(a) 80,089,811
26. Less unpaid expenses - current year .....	177,054,887	72,406,788	30,800	249,492,475
27. Add unpaid expenses - prior year .....	179,014,511	76,229,077	36,300	255,279,888
28. Amounts receivable relating to uninsured plans, prior year .....	0	0	0	0
29. Amounts receivable relating to uninsured plans, current year .....				0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29) .....	48,097,306	36,384,272	1,395,646	85,877,224
<b>DETAILS OF WRITE-INS</b>				
2401. All other .....	(7,267)	5,266,599	398,673	5,658,005
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) .....	(7,267)	5,266,599	398,673	5,658,005

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

**EXHIBIT OF NET INVESTMENT INCOME**

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 1,949,223	1,556,936
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a) 19,947,912	19,252,705
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)	69,404	69,404
2.21 Common stocks of affiliates	2,000,160	2,000,160
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 32,877	43,146
7. Derivative instruments	(f)	
8. Other invested assets	166,885	166,885
9. Aggregate write-ins for investment income	83,857	83,857
10. Total gross investment income	24,250,318	23,173,093
11. Investment expenses		(g) 1,390,147
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h) 171
14. Depreciation on real estate and other invested assets		(i)
15. Aggregate write-ins for deductions from investment income		0
16. Total deductions (Lines 11 through 15)		1,390,318
17. Net investment income (Line 10 minus Line 16)		21,782,775
<b>DETAILS OF WRITE-INS</b>		
0901. Income from other sources	83,857	83,857
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)	83,857	83,857
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		0
1599. Totals (Lines 1501 through 1503) plus 1598 (Line 15 above)		0

- (a) Includes \$ 540,072 accrual of discount less \$ 3,800,576 amortization of premium and less \$ 803,218 paid for accrued interest on purchases.  
 (b) Includes \$ accrual of discount less \$ amortization of premium and less \$ 0 paid for accrued dividends on purchases.  
 (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ paid for accrued interest on purchases.  
 (d) Includes \$ for company's occupancy of its own buildings; and excludes \$ interest on encumbrances.  
 (e) Includes \$ 14,958 accrual of discount less \$ 77,309 amortization of premium and less \$ 79,299 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	1,101,348		1,101,348		
1.1 Bonds exempt from U.S. tax			0		
1.2 Other bonds (unaffiliated)	1,740,594		1,740,594	101,625	
1.3 Bonds of affiliates	0	0	0	0	0
2.1 Preferred stocks (unaffiliated)	0	0	0	0	0
2.11 Preferred stocks of affiliates	0	0	0	0	0
2.2 Common stocks (unaffiliated)	0	0	0	0	0
2.21 Common stocks of affiliates	0	2,000,250	2,000,250	(1,706,351)	0
3. Mortgage loans	0	0	0	0	0
4. Real estate	0	0	0	0	0
5. Contract loans	0	0	0	0	0
6. Cash, cash equivalents and short-term investments	735		735	0	0
7. Derivative instruments			0		
8. Other invested assets	915,036	(1,029,240)	(114,204)	144,947	0
9. Aggregate write-ins for capital gains (losses)	0	31,950	31,950	77,610	0
10. Total capital gains (losses)	3,757,713	1,002,960	4,760,673	(1,382,169)	0
<b>DETAILS OF WRITE-INS</b>					
0901. Change in deferred gain on investment transfers from subsidiaries			0	77,610	
0902. Realized F/X loss related to repatriation of Canada Branch assets		31,950	31,950		
0903.			0		
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0	0
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9 above)	0	31,950	31,950	77,610	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. Derivatives (Schedule DB).....	0	0	0
8. Other invested assets (Schedule BA) .....	0	0	0
9. Receivables for securities .....	0	0	0
10. Securities lending reinvested collateral assets (Schedule DL).....	0	0	0
11. Aggregate write-ins for invested assets .....	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11) .....	0	0	0
13. Title plants (for Title insurers only).....	0	0	0
14. Investment income due and accrued .....	0	0	0
15. Premiums and considerations:			
15.1 Uncollected premiums and agents' balances in the course of collection .....	1,572,650	2,910,404	1,337,754
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....	11,880	54,795	42,915
15.3 Accrued retrospective premiums.....	161,588	145,780	(15,808)
16. Reinsurance:			
16.1 Amounts recoverable from reinsurers .....	0	0	0
16.2 Funds held by or deposited with reinsured companies .....	0	0	0
16.3 Other amounts receivable under reinsurance contracts .....	0	0	0
17. Amounts receivable relating to uninsured plans .....	0	0	0
18.1 Current federal and foreign income tax recoverable and interest thereon .....	0	0	0
18.2 Net deferred tax asset.....	0	0	0
19. Guaranty funds receivable or on deposit .....	0	0	0
20. Electronic data processing equipment and software.....	0	258,274	258,274
21. Furniture and equipment, including health care delivery assets.....	0	0	0
22. Net adjustment in assets and liabilities due to foreign exchange rates .....	0	0	0
23. Receivables from parent, subsidiaries and affiliates .....	5,662	5,670	8
24. Health care and other amounts receivable.....	0	0	0
25. Aggregate write-ins for other than invested assets .....	420,425	3,898,220	3,477,795
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25).....	2,172,205	7,273,143	5,100,938
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0	0
28. Total (Lines 26 and 27)	2,172,205	7,273,143	5,100,938
<b>DETAILS OF WRITE-INS</b>			
1101. ....			
1102. ....			
1103. ....			
1198. Summary of remaining write-ins for Line 11 from overflow page .....	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)	0	0	0
2501. Amounts receivable under high deductible policies.....	176,398	3,557,086	3,380,688
2502. Other assets.....	244,027	341,134	97,107
2503. ....			
2598. Summary of remaining write-ins for Line 25 from overflow page .....	0	0	0
2599. Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)	420,425	3,898,220	3,477,795

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lumbermens Mutual Casualty Company (the "Company") is a mutual property and casualty insurance company domiciled in the State of Illinois. The Company is the lead company of a group of insurers and affiliates, now in run-off status, which operated under the trade names of "Kemper" and the "Kemper Insurance Companies". The Company and its affiliates have ceased use of the name "Kemper" and the "Kemper Insurance Companies" and will continue winding up their operations under the trade name "Lumbermens Mutual Group" ("LMG"). This change occurred as result of LMG's June 29, 2010 sale of its rights in the Kemper name to Unitrin, Inc. ("Unitrin") which in 2011 changed its name to Kemper Corporation. Two of the Company's insurance affiliates received approval from their domiciliary states to change their legal names effective September 30, 2010. Kemper Casualty Insurance Company is now known as Lumbermens Casualty Insurance Company ("LCIC") and Kemper Insurance Company of Texas is now known as Lumbermens Insurance Company of Texas ("LICT").

Under administrative supervision by the Illinois Department of Insurance (the "Department"), the Company and LMG are operating under a run-off plan filed with the Department in 2004. The Company is subject to confidential corrective orders (the "Corrective Orders") issued by the Department since early 2003 (see Note 14) when the Company went into run-off status. In compliance with applicable law and Corrective Orders, respectively, the Company has not paid any dividends to policyholders (see Note 1.C.) or interest on surplus notes (see Note 13) in 2011 and 2010.

#### A. Accounting Practices

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

The Company's reported surplus at December 31, 2011 and 2010 reflects increases of \$336.9 million and \$298.3 million, respectively, at those dates over what would have been reported without accounting practices prescribed or permitted by the Department, as illustrated in the following table and as described further below:

Prescribed or Permitted Practices	December 31, 2011	December 31, 2010	Increase/ (Decrease)
	(In thousands)		
Loss and LAE Reserve Discounting	\$ 222,551	204,239	18,312
Prepaid Expenses	13,249	15,028	(1,779)
Provision for Uncollectible Reinsurance	1,736	7,927	(6,191)
Annuity Reinsurance Contracts	11,899	11,686	213
Subsidiary Audited Financials	7,547	7,441	106
Funds Held with Reinsured Companies	5,089	5,876	(787)
LBA and GFA	29,360	30,957	(1,597)
Real Estate Joint Venture	8,084	7,939	145
Unallocated Loss Adjustment Expenses	4,912	7,201	(2,289)
Corrections of Errors	0	0	0
Retroactive Reinsurance Agreements	0	0	0
Structured Settlement Annuities	32,511	0	32,511
Direct Loss and ALAE Reserves	30,973	30,836	137
Assumed Loss and ALAE Reserves	25,997	26,188	(191)
Deferred Credit	(56,970)	(57,024)	54
<b>Total</b>	<b>\$ 336,938</b>	<b>298,294</b>	<b>38,644</b>

1. Loss and LAE Reserve Discounting. Pursuant to a prescribed accounting practice, the Company discounts its loss and loss adjustment expense ("LAE") reserves at 4.2% in the accompanying financial statements. Prior to 2003, the Company discounted at 3.5% (or the required statutory rate) only certain categories of liabilities on its statutory statements of admitted assets, liabilities and surplus ("balance sheet"), essentially the tabular discount on permanent total/lifetime benefit liabilities, pursuant to prescribed accounting practices. (See Note 32.) At December 31, 2011, the total amount of the tabular and non-tabular discount, included on the balance sheet and on Schedule P, was \$274.8 million; the total was \$279.0 million at December 31, 2010. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been under the tabular discount by \$222.6 million at December 31, 2011 and \$204.2 million at December 31, 2010. At December 31, 2011, the Company's book yield on cash and invested assets, excluding affiliate investments, was approximately 2.7%. (See Note 14.)
2. Prepaid Expenses. Pursuant to a prescribed accounting practice, the balance sheet of the Company reflects as admitted assets the amounts that the Company has prepaid for claim handling services to two third-party administrators. (See Note 10.) The prescribed practice further allows the Company to admit its December 31, 2011 and 2010 prepaid expense assets primarily related to insurance and rent expenses. With this prescribed practice, the Company's

## NOTES TO FINANCIAL STATEMENTS

reported surplus exceeded what its surplus would have been by \$13.2 million at December 31, 2011 and \$15.0 million at December 31, 2010.

3. **Provision for Uncollectible Reinsurance.** Pursuant to a prescribed accounting practice, the Company established a general provision for uncollectible reinsurance, net of discount, of \$9.3 million at December 31, 2011 and \$17.9 million at December 31, 2010. The Schedule F penalty otherwise prescribed by the Manual would have been \$11.0 million at December 31, 2011 and \$25.8 million at December 31, 2010. As prescribed by the Department, this provision has been established using the same 4.2% discount rate as used for the Company's discounted underlying loss and LAE reserves. Such discount reduced the amount of the provision by \$1.6 million at December 31, 2011 and \$1.4 million at December 31, 2010.
4. **Annuity Reinsurance Contracts.** Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2011 and 2010 reflects as admitted assets the estimated value of certain annuity reinsurance contracts issued by Washington National Insurance Company, which is rated B+ (good) by A.M. Best. As reflected on the balance sheet, the annuity reinsurance contracts totaled \$13.2 million at December 31, 2011 and \$13.3 million at December 31, 2010. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by \$11.9 million at December 31, 2011 and \$11.7 million at December 31, 2010.
5. **Audited Financial Statements of Certain Subsidiaries.** For 2011 and 2010, the Department granted a permitted accounting practice allowing the Company to forego the requirement to obtain audited financial statements for certain of the Company's subsidiaries. At December 31, 2011 and 2010, such subsidiaries had a combined statement value (surplus) of \$7.5 million and \$7.4 million, respectively. The Company believes that the statutory carrying values of these subsidiaries approximate the carrying values that would be determined if audited statements were prepared.
6. **Funds Held with Reinsured Companies.** Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2011 and 2010 reflects as admitted assets funds held with reinsured companies that exceed the liabilities they are intended to secure. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by \$5.1 million at December 31, 2011 and \$5.9 million at December 31, 2010.
7. **Loss Based Assessment ("LBA") and Guaranty Fund Assessment ("GFA") Liabilities.** Pursuant to a prescribed accounting practice, the Company discounts its LBA liability at 4.2%. The prescribed accounting practice further allows the Company to calculate its December 31, 2011 and 2010 LBA liability based on an estimate of LBA payments to be made within two years of the date of the statutory financial statements. A prescribed accounting practice also allows the Company to forego the requirement to record an estimate of guaranty fund assessments that have been authorized by certain guaranty funds but not called. With these prescribed practices, the Company's reported surplus exceeded what it would have been by \$29.4 million at December 31, 2011 and \$31.0 million at December 31, 2010.
8. **Real Estate Joint Venture.** The balance sheet of the Company at December 31, 2011 and 2010 reflects as other invested assets a real estate acquisition, development, and construction arrangement (ADC) as a real estate joint venture. As reflected on the balance sheet, the real estate joint venture is valued at \$13.4 million at December 31, 2011 and \$13.2 million at December 31, 2010. Pursuant to a prescribed accounting practice, the Company is allowed to increase the carrying value at December 31, 2011 of the real estate joint venture by 50% of the difference between its December 31, 2011 cost and the fair value as determined by an external appraisal performed at December 31, 2010. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by \$8.1 million at December 31, 2011 and \$7.9 million at December 31, 2010.
9. **Unallocated Loss Adjustment Expense Reserve.** Pursuant to a prescribed accounting practice, the Company established its December 31, 2011 reserve for unallocated loss adjustment expense ("ULAE") based on an estimate of ULAE payments to be made within two years of the date of the statutory financial statements. The prescribed accounting practice further directs the Company to include in the reserve amounts that the Company has prepaid for claim handling services to two third-party administrators. (See Note 10.) With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by \$4.9 million at December 31, 2011 and \$7.2 million at December 31, 2010.
10. **Reporting of Corrections of Errors.** As described in Note 2 "*Accounting Changes and Corrections of Errors*", during the first quarter of 2010 the Company identified errors aggregating approximately \$5.0 million related to the preparation of its December 31, 2009 estimate for loss and LAE reserves. The Manual provides technical guidance to the effect that such error corrections be recorded in the current period as a direct adjustment to surplus. The Company recorded \$5.0 million of those adjustments through its statement of income in the

## NOTES TO FINANCIAL STATEMENTS

first quarter of 2010, the adjustments resulted in a surplus reduction on the balance sheet. The Department has granted a permitted accounting practice to the Company to record in its statutory financial statements the corrections of errors through the year ended 2010 operations and has not required the Company to restate its 2009 statutory financial statements. This permitted practice had no impact on the Company's reported surplus at December 31, 2010.

11. **Retroactive Reinsurance Agreements Treated as Prospective.** Certain of the Company's reinsurance agreements entered into prior to 2003 were not reduced to signed written forms within the nine-month period required by the Manual and thus should have been accounted for as retroactive reinsurance. The Department granted a permitted accounting practice to the Company for the 2011 and 2010 statutory financial statements to record these reinsurance agreements as prospective contracts. In the absence of the permitted practice, the Company's restricted surplus would have increased, although its total surplus would not have changed. The Company has not quantified what the increase to restricted surplus would have been absent the permitted practice.
12. **Structured Settlement Annuities.** The Company has recorded an estimate for amounts due to settling claimants who were named as payees of structured settlement annuities purchased by the Company from Executive Life Insurance Company of New York ("ELNY"). Based upon information received from the New York Liquidation Bureau ("NYLB") regarding a proposed ELNY liquidation and restructuring agreement, the Company estimates that it has incurred a liability, after reinsurance, of approximately \$33.6 million for the anticipated shortfall of payments due to structured settlement annuity payees. Pursuant to a prescribed accounting practice, the Company discounts this liability at 4.2 %. With this prescribed accounting practice the Company's reported surplus exceeded what it would have been by \$18.3 million at December 31, 2011. The prescribed accounting practice further directs the Company to calculate this liability based on an estimate of anticipated payments to be made within two years of the date of the statutory financial statements. With this prescribed accounting practice the Company's reported surplus exceeded what it would have been by \$14.2 million at December 31, 2011.
13. **Deferred Credit.** At December 31, 2011 and 2010 the Department has prescribed certain accounting practices that do not result in an increase to the December 31, 2011 nor the December 31, 2010 surplus of the Company, but it is reasonably possible that the Company's surplus reported in future periods will benefit from the following prescribed accounting practices.
  - a. **Direct Loss and ALAE Reserves.** Pursuant to a prescribed accounting practice, the Company has recorded an estimate for unpaid claims, losses, and allocated loss adjustment expense ("ALAE") related to direct business, less amounts ceded to reinsurers and discount, that is 5% less than management's best estimate. Under the direction of the Department, the Company has deferred the surplus benefit of this prescribed accounting practice at both December 31, 2011 and 2010 by recording a deferred credit that is summarized within the "Aggregate write-in for liabilities" line item on the Company's balance sheet. The deferred credit may be recognized in future periods and benefit surplus if the Company's surplus were otherwise to fall below a minimum surplus amount as ordered by the Department. Absent the direction by the Department to defer this prescribed accounting practice, the Company's reported surplus would have exceeded what its surplus would have been without the prescribed accounting practice by approximately \$31.0 million at December 31, 2011 and \$30.8 million at December 31, 2010.
  - b. **Assumed Loss and ALAE Reserves.** Pursuant to a prescribed accounting practice, the Company has recorded an estimate for unpaid claims, losses, and ALAE related to assumed business, less offsets available to reinsurers and discount, based on an estimate of assumed reinsurance payments to be made within two years of the date of the statutory financial statements. Under the direction of the Department, the Company has deferred the surplus benefit of this prescribed accounting practice at both December 31, 2011 and 2010 by recording a deferred credit that is summarized within the "Aggregate write-in for liabilities" line item on the Company's balance sheet. The deferred credit may be recognized in future periods and benefit surplus if the Company's surplus were otherwise to fall below a minimum surplus amount as ordered by the Department. Absent the direction by the Department to defer this prescribed accounting practice, the Company's reported surplus would have exceeded what its surplus would have been without the prescribed accounting practice by approximately \$26.0 million at December 31, 2011 and \$26.2 million at December 31, 2010.

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

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



## NOTES TO FINANCIAL STATEMENTS

The Company's investments are primarily comprised of bonds. The evaluation of bonds for other-than-temporary impairments is subject to risks and uncertainties and is intended to determine whether declines in fair values of bonds should be recognized in current year earnings. The risk and uncertainties include changes in general economic conditions, the issuers' financial condition and future prospects, the effects of changes in interest rates or current spreads, and the expected recovery period. The Company's bonds include loan-backed securities and other securities subject to prepayment and call risk. Significant changes in interest rates, defaults, and recoveries affect the timing and amount of cash flows on such securities. In addition, the amortization of premium and accretion of discount for loan-backed securities is based on historical payment experience and estimates of the timing of future payments on the underlying loans. Actual payment experience will differ from original estimates and will result in adjustments to amortization and accretion recorded in future periods.

As further discussed below, significant estimates and assumptions affect various provisions including losses and policyholder dividends. The liabilities for losses and LAE, although supported by actuarial analysis and other data, are ultimately based on management's reasoned expectations of future events. As further described in Note 33, estimates of losses and LAE related to environmental and asbestos claims are also subject to a greater degree of uncertainty and variability. Policyholder dividend recalls (accrued retrospective premiums), LBA, and premium deficiency reserves are estimated based on similar assumptions used to estimate the ultimate liabilities for losses and LAE.

### C. Accounting Policy

The Company's significant accounting policies are as follows:

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

The amortized cost of bonds is adjusted for amortization of premiums and accretion of discounts using a level effective yield method to maturity, or in the case of loan-backed securities, over the estimated life of the security. Such amortization is included in investment income. Amortization of the discount or premium from loan-backed securities is generally recognized retrospectively based on the estimated timing and amount of prepayments of the underlying assets and is adjusted to reflect differences which arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated; however, the amortization change is recognized prospectively after an other-than-temporary impairment has been recorded for a loan-backed security. To the extent the estimated lives of such securities change as a result of changes in prepayment rates, the adjustment is also included in investment income.

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

Unaffiliated common stocks are carried at fair value.

Affiliated common stocks are generally carried at the underlying statutory equity of the respective entity's financial statements. (See Note 1.A.)

Other invested assets include notes receivable and joint venture interests. Notes receivable are carried at amortized cost, net of any impairment. Joint ventures in which the Company has a less than 10% ownership interest are carried at cost after impairment writedowns. The Company accounts for an ADC as a joint venture carried at its December 31, 2011 and 2010 cost plus 50% of the difference between cost and fair value as determined by an external appraisal performed at December 31, 2010. (See Note 1.A.)

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.

## NOTES TO FINANCIAL STATEMENTS

Policy acquisition costs such as commissions, premium taxes, and other underwriting and agency expenses are charged to income as incurred.

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

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

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

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

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

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

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

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

### 2. ACCOUNTING CHANGES AND CORRECTIONS OF ERRORS

#### *Corrections of Errors*

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

### 3. BUSINESS COMBINATIONS AND GOODWILL

None.

### 4. DISCONTINUED OPERATIONS

None.

### 5. INVESTMENTS

#### A. Mortgage Loans, including Mezzanine Loans

None.

#### B. Debt Restructuring

None.

#### C. Reverse Mortgages

## NOTES TO FINANCIAL STATEMENTS

None.

### D. Bonds and Loan-Backed Securities

The statement value and fair value of bonds at December 31, 2011 and 2010 were as follows:

	2011			
	Statement value	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
U.S. governments	\$ 27,560	1,105	0	28,665
Special revenue and assessment obligations and all non-guaranteed obligations of agencies and authorities of U.S. governments	12,582	337	(247)	12,672
Industrial and miscellaneous	415,117	5,475	(9,131)	411,461
Asset-backed securities	28,022	189	(669)	27,542
Mortgage-backed securities	94,841	579	(1,279)	94,141
Total bonds	\$ 578,122	7,685	(11,326)	574,481

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

Bonds in an unrealized loss position are regularly reviewed for other-than-temporary declines in value. Factors considered in determining whether a decline is other-than-temporary include the length of time a bond has been in an unrealized loss position and the reasons for the decline in value. Assessments include judgments about an obligor's or guarantor's current and projected financial position, an issuer's current and projected ability to service and repay its debt obligations, the existence of, and realizable value for, any collateral backing the obligations, and the macro-economic and micro-economic outlooks for specific industries and issuers. Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities.

In performing its other-than-temporary impairment reviews, the Company, in consultation with its engaged portfolio manager, considers the relevant facts and circumstances relating to each investment and exercises judgment in determining whether a bond is other-than-temporarily impaired. Among the factors considered are whether the decline in fair value results from fundamental credit problems of the issuer, or is interest related, and the likelihood of recovering the amortized cost based on the current and short-term prospects of the issuer. Unrealized losses are determined to be temporary where such losses are primarily the result of market conditions, such as increasing interest rates, unusual market volatility, or industry-related events, and where the Company also believes it is probable that the Company will be able to collect all amounts when due in accordance with the contractual terms of the investment and, furthermore, has the intent and ability to hold the investment until the market recovers or maturity and, therefore, does not have the intent to sell the investment.

The bonds shown in the table below, nearly all of which are rated "AA" or better, or are U.S. government obligations or are U.S. government agency mortgage-backed obligations and which, therefore, have minimal credit risk, are subject to normal market fluctuations. Based on the Company's evaluation of the bonds shown in the table below and the Company's intent and ability

## NOTES TO FINANCIAL STATEMENTS

to hold the securities until they recover in value or mature, the Company does not consider the bonds to be other-than-temporarily impaired.

The risks inherent in reviewing the impairment of any investment include the risk that market results may differ from expectations; facts and circumstances may change in the future and differ from estimates and assumptions; or the Company may later decide to sell the security and realize a gain or loss as a result of changes in the specific facts and circumstances surrounding a bond, or the outlook for its industry sector or the economy.

As of December 31, 2011 and 2010, the gross unrealized losses segregated between those that were in a loss position for more than twelve months and those that were in a loss position for less than twelve months were as follows:

	2011		
	Number of issues	Gross unrealized losses	Fair value
	(In thousands)		
Bonds in a loss position more than 12 months:			
Special revenue and assessment obligations and all non-guaranteed obligations of agencies and authorities of U.S. governments	1	\$ (244)	2,601
Industrial and miscellaneous <sup>1</sup>	1	(8,577)	45,514
Asset-backed securities	1	(592)	2,738
Mortgage-backed securities	4	(1,261)	8,232
	7	(10,674)	59,085
Bonds in a loss position less than 12 months:			
U.S. governments	1	0	84
Special revenue and assessment obligations and all non-guaranteed obligations of agencies and authorities of U.S. governments	1	(3)	629
Industrial and miscellaneous	4	(554)	15,997
Asset-backed securities	3	(76)	13,656
Mortgage-backed securities	6	(19)	20,430
	15	(652)	50,796
Total bonds in a loss position	22	\$ (11,326)	109,881

## NOTES TO FINANCIAL STATEMENTS

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

<sup>1</sup> Includes one at December 31, 2011 and two at December 31, 2010 Berkshire Hathaway Group ("Berkshire") (which is rated "AA") bonds with gross unrealized losses of \$8.6 million and fair values of \$45.5 million at December 31, 2011 and with gross unrealized losses of \$18.5 million and fair values of \$139.9 million at December 31, 2010.

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.

There were no impairment writedowns in 2011. During 2010, the Company recognized \$84 thousand of realized losses related to other-than-temporary impairment writedowns of a loan-backed bond because the present value of cash flows expected to be collected was less than the amortized cost of the security. This bond was fully paid down in 2011.

**E. Repurchase Agreements and/or Securities Lending Transactions**

None.

**F. Real Estate**

None.

**G. Investments in Low-income Housing Tax Credits**

None.

**6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES**

The Company has no investments in joint ventures, partnerships, or limited liability companies which individually exceed 10% of the Company's admitted assets.

**7. INVESTMENT INCOME**

The Company's accrued investment income is all less than 90 days past due and accordingly is treated as an admitted asset as of December 31, 2011.

**8. DERIVATIVE INSTRUMENTS**

None.

**9. INCOME TAXES**

A. The components of the Company's net deferred tax asset/(deferred tax liability) ("DTA"/"(DTL)") at December 31, 2011 and 2010 and the change in those components are as follows. Paragraph ("Para") references refer to SSAP No. 10R.

## NOTES TO FINANCIAL STATEMENTS

	2011		
	Ordinary	Capital	Total
	(In thousands)		
Gross DTA	\$741,700	\$ 13,875	\$755,575
Statutory valuation allowance	(739,587)	(13,849)	(753,436)
Adjusted gross DTA	2,113	26	2,139
Gross DTL	(2,113)	(26)	(2,139)
Net DTA/(DTL) before admissibility test	\$ -	\$ -	\$ -
Admitted pursuant to para. 10.a. carryback period	\$ -	\$ -	\$ -
Para. 10.b.i. DTA's realized within one year	-	-	-
Para. 10.b.ii. 10% surplus limitation	-	-	-
Admitted pursuant to para. 10.b. (lesser of i. or ii.)	-	-	-
Admitted pursuant to para. 10.c. offset against DTLs	(2,113)	(26)	(2,139)
Admitted DTA (sum of 10a, b, c above)	(2,113)	(26)	(2,139)
DTL	2,113	26	2,139
Net admitted DTA/(DTL)	\$ -	\$ -	\$ -
	2010		
	Ordinary	Capital	Total
	(In thousands)		
Gross DTA	\$738,616	\$ 21,453	\$760,069
Statutory valuation allowance	(737,160)	(21,427)	(758,587)
Adjusted gross DTA	1,456	26	1,482
Gross DTL	(1,456)	(26)	(1,482)
Net DTA/(DTL) before admissibility test	\$ -	\$ -	\$ -
Admitted pursuant to para. 10.a. carryback period	\$ -	\$ -	\$ -
Para. 10.b.i. DTA's realized within one year	-	-	-
Para. 10.b.ii. 10% surplus limitation	-	-	-
Admitted pursuant to para. 10.b. (lesser of i. or ii.)	-	-	-
Admitted pursuant to para. 10.c. offset against DTLs	(1,456)	(26)	(1,482)
Admitted DTA (sum of 10a, b, c above)	(1,456)	(26)	(1,482)
DTL	1,456	26	1,482
Net admitted DTA/(DTL)	\$ -	\$ -	\$ -

	Change During 2011		
	Ordinary	Capital	Total
	(In thousands)		
Gross DTA	\$ 3,084	\$ (7,578)	\$ (4,494)
Statutory valuation allowance	(2,427)	7,578	5,151
Adjusted gross DTA	657	-	657
Gross DTL	(657)	-	(657)
Net DTA/(DTL) before admissibility test	\$ -	\$ -	\$ -
Admitted pursuant to para. 10.a. carryback period			\$ -
Para. 10.b.i. DTA's realized within one year	-	-	-
Para. 10.b.ii. 10% surplus limitation	-	-	-
Admitted pursuant to para. 10.b. (lesser of i. or ii.)	-	-	-
Admitted pursuant to para. 10.c. offset against DTLs	(657)	-	(657)
Admitted DTA (sum of 10a, b, c above)	(657)	-	(657)
DTL	657	-	657
Net admitted DTA/(DTL)	\$ -	\$ -	\$ -

B. DTLs are not recognized for the following amounts:

## NOTES TO FINANCIAL STATEMENTS

None.

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

	2011	2010
	(In thousands)	
Federal taxes before capital gains, net operating losses ("NOL"), and alternative minimum tax ("AMT")	\$ (121)	\$ (380)
Foreign taxes	-	-
Capital gains	(829)	(1,305)
NOL and capital loss carryforward	829	1,210
AMT	-	-
Prior period adjustments	59	-
Total current federal income taxes incurred	\$ (62)	\$ (475)

The main components of the December 31, 2011 and 2010 deferred tax amounts and the change in those components are as follows:

	2011	2010	Change
	(In thousands)		
DTA: Ordinary:			
Loss carryforwards	\$676,477	\$673,963	\$ 2,514
Investments	41,838	37,807	4,031
Accrued Liabilities	5,395	7,100	(1,705)
Receivables	3,985	8,891	(4,906)
Section 197 intangibles	3,721	4,779	(1,058)
Reserves	5,350	1,013	4,337
Other	4,934	5,063	(129)
Capital:			
Capital loss carryforwards	-	7,518	(7,518)
Investments	13,875	13,935	(60)
Other	-	-	-
Total gross DTA	755,575	760,069	(4,494)
Adjustments to gross DTA	(753,436)	(758,587)	5,151
Total adjusted gross DTA	\$ 2,139	\$ 1,482	\$ 657
DTL: Ordinary:			
Investments	\$ (1,987)	\$ (1,182)	\$ (805)
Salvage and subrogation	(126)	(275)	149
Capital:			
Investments	(26)	(25)	(1)
Other	-	-	-
Total gross DTL	(2,139)	(1,482)	(657)
Total DTA	2,139	1,482	657
Total DTL	(2,139)	(1,482)	(657)
Net DTA/(DTL)	\$ -	\$ -	\$ -

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

	2011	% of Pre-Tax Income (\$16,127)
Provision computed at statutory rate - 35%	\$ (5,645)	35.003%
Investments	(1,086)	6.734%
Receivables	4,906	-30.421%
Loss carryforwards	7,445	-46.165%
Reserves	-	0.000%
All other	(531)	3.293%

## NOTES TO FINANCIAL STATEMENTS

Total statutory income tax	\$ 5,089	-31.556%
Federal and foreign income taxes incurred	(62)	0.384%
Federal income tax on net capital gains	-	0.000%
Change in net deferred income taxes	5,151	-31.940%
Total statutory income tax	\$ 5,089	-31.556%

- E. At December 31, 2011, the Company had \$1,932.8 million of operating loss carryforward which originated and expires as follows:

Origination year	Expiration year	Amount
		(In thousands)
2000	2020	\$ 179,079
2001	2021	\$ 404,748
2002	2022	\$ 38,885
2003	2023	\$ 211,668
2004	2024	\$ 399,689
2005	2025	\$ 177,705
2006	2026	\$ 178,657
2007	2027	\$ 91,136
2008	2028	\$ 105,730
2009	2029	\$ 86,570
2010	2030	\$ 41,108
2011	2031	\$ 17,816

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 2007 are closed for Internal Revenue Service ("IRS") examination. The Company is not currently under examination by the IRS for any open tax years.

The Company files as part of a consolidated Federal income tax return which includes the Company as the common parent corporation and includes or included the following affiliated entities: American Motorists Insurance Company ("AMICO"), AMICO Realty Corporation ("AMICO Realty"), Lumbermens Casualty Insurance Company ("LCIC"), Lumbermens International Corporation ("LIC"), Lumbermens Insurance Company of Texas ("LICT"), Lumbermens Realty Corporation, Lumbermens Technology Services, Inc., LGA-17, Inc., Lou Jones & Associates, and Specialty Surplus Insurance Company ("SSIC").

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

#### 10. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AFFILIATES AND OTHER RELATED PARTIES

The Company is the lead company of Lumbermens Mutual Group. As a mutual insurance company, the Company has no stockholders and no parent company. The Company and affiliates are disclosed in the organizational chart of Schedule Y. Common stock investments in affiliates or subsidiaries are disclosed in Schedule D under the caption "Parents, Subsidiaries and Affiliates." The Company's investment in an affiliate joint venture is disclosed in Schedule BA. Reinsurance relationships between the Company and its affiliates are disclosed in Schedule F. Certain commitments and contingencies are set forth in Note 14. The Company's relationship with American Manufacturers Mutual Insurance Company ("AMM"), an affiliated mutual insurance company that shares common management and directors with the Company, is further described in Note 26.

##### *Significant Affiliate and Former Affiliate Transactions in 2011 and 2010*

##### *Affiliate Support for D&O Insurance*



## NOTES TO FINANCIAL STATEMENTS

In connection with a portion of the Company's and its affiliates' corporate insurance program, SSIC, a wholly owned subsidiary of the Company, extended a reinsurance agreement, effective December 31, 2010 for a three-year period (2011, 2012, and 2013), facultatively reinsuring a corresponding three-year A-side management liability policy issued by an unaffiliated third party to the Company and AMM. SSIC maintains in a trust the \$15.0 million reinsurance premium it received from its affiliates, plus an additional \$0.6 million, for the benefit of the third-party insurer to collateralize the reinsurance obligation. The Company's income, surplus, and liquidity were unchanged by the extension, except to the extent of a \$275 thousand administrative fee paid to the unaffiliated third party in 2011.

### ***Broadspire Transaction and Claim Handling***

In July 2003, the Company sold its NATLSCO, Inc. subsidiary and related claim service operations (together subsequently renamed "Broadspire"). The 2003 sales agreement with Broadspire provided for certain contingent consideration (earn-out) based on the revenue and net income of the sold business for a four-year period beginning January 1, 2004 (the "Earn-Out Period"). The sales agreement required the acceleration and payment of remaining earn-out if Broadspire sold assets of NATLSCO during the Earn-Out Period. In an arbitration proceeding, the Company disputed the accuracy of the amounts paid by Broadspire for the 2004 and 2005 earn-out periods. In the second quarter of 2010 the Company received approximately \$3.5 million as a result of the arbitrator's ruling on the 2004 Earn-Out Period, and in the first quarter of 2011 the Company received approximately \$6.4 million as a result of the arbitrator's ruling on the 2005 Earn-Out Period. In addition, in a series of three transactions between December 2005 and October 2006, Broadspire disposed of NATLSCO and certain of its assets. In 2006, Broadspire paid \$3.6 million as a buy-out of the remaining earn-out (due to the asset dispositions) that Broadspire admitted was due under the sales agreement. The Company disputed the accuracy of Broadspire's calculations, and was involved in arbitration proceedings with Broadspire related to the asset dispositions. In December 2011 the arbitrator issued a final and non-appealable ruling on the asset dispositions and awarded approximately \$14.6 million to the Company. The Company established a receivable in the 2011 statutory financial statements and received payment on January 5, 2012 pursuant to the timetable in the arbitration agreement and ruling.

Also in connection with the 2003 transaction, the Company entered into a long-term claim administration agreement with Broadspire for the servicing of most of the Company's existing workers' compensation, general liability, and employer liability claims. The Company paid in advance for the future servicing of such claims, a portion of which payment was placed in trust by Broadspire to be drawn down monthly over an eight-year period beginning January 1, 2004. The Company was not obligated to add any assets to the trust. At December 31, 2011, the amount remaining in this trust was \$0.9 million, down from \$2.7 million one year earlier. The Company receives the interest on Broadspire's trust assets. In accordance with a prescribed accounting practice more fully described in Note 1, the Company reflects as an admitted asset the remaining prepaid amount for claim handling services; that amount has declined to approximately \$9.3 million as of December 31, 2011 from \$10.6 million as of December 31, 2010.

### ***Kemper Auto & Home: Renewal Rights and Cut-Through***

Following the sale in 2002 of the Company's and its affiliates' U.S. personal lines business to Unitrin and its subsidiaries including Trinity Universal Insurance Company ("Trinity"), Unitrin operated this business with a 100-year license to use the Kemper name in personal lines. As more fully described in Note 1, LMG in 2010 concluded the sale of its rights in the Kemper name to Unitrin. Unitrin did not acquire then in-force or previously issued policies nor renewal rights to policies issued in Alaska, Michigan, Delaware, or Arkansas or to policies produced by independent agents whose authority to write new business had been terminated prior to April 19, 2002. Pursuant to the 2002 sale agreement, Unitrin continues to monitor and service the Company's run-off of its retained personal lines policies. Through early 2005, the Company and certain of its affiliates fronted for Trinity, at Trinity's expense, personal lines policies in states where Trinity (or an affiliate) was seeking licenses and making form and rate filings necessary for the issuance of policies in place of renewals of policies originally issued by the Company or its affiliates. As of December 31, 2011 and 2010, respectively, approximately \$0.7 million and \$1.9 million of the Company's gross outstanding loss and LAE reserves were from fronted policies that are 100% reinsured by (ceded to) Unitrin. Not only are these reinsured policies fully administered (including claims handled) by Unitrin subsidiaries, such policies are covered by a cut-through provision allowing the insureds to seek direct recourse to a Unitrin subsidiary in the event of any insolvency of the Company.

### ***Berkshire Cut-Through; Bond Facility; Claims Handling***

In early 2003, shortly after LMG, formerly known as Kemper Insurance Companies, was downgraded to below an "A" level, National Indemnity Company ("NICO"), a member of the "AA" rated Berkshire, provided the Company and its affiliates with immediate access to cut-through agreements issued by

## NOTES TO FINANCIAL STATEMENTS

NICO. The cut-through agreements were applied to certain standard commercial and specialty lines policies of insurance in-force as of December 23, 2002 and to certain new policies issued by certain members of LMG on and after December 23, 2002 until September 30, 2003. With respect to each policy to which the NICO cut-through agreement applies, the cut-through allows a LMG insured to directly submit claims to NICO in the event the respective LMG company (as the issuer of the policy) is unable to pay such claims as a result of its insolvency or a court or regulatory order prohibiting claim payments due to the issuing company's financial condition.

As an agreed condition for NICO to provide the cut-through agreements, the Company and its affiliates immediately provided collateral available to NICO if and to the extent NICO makes any payments under any cut-through agreements. The collateral includes offset rights granted to NICO for reinsurance proceeds payable by either NICO or its affiliate, National Fire & Marine Insurance Company ("National Fire"), to the Company or its affiliates; a collateral trust initially in an amount of \$251.1 million as of the end of June 2003, which amount was subject to quarterly reductions by payments of claims (losses and LAE) and mid-term cancellations of policies (the trust amount decreased to zero in the third quarter of 2006); and investments of \$257.3 million in Berkshire corporate obligations (Schedule D admitted assets) which the Company pledged as security to Berkshire. The Berkshire corporate obligations were reduced to \$154.1 million at December 31, 2011, with cash in the amount of the reduction released to the Company in accordance with existing agreements. The investments were further reduced in early 2012, by approximately \$4.2 million, due to a mandatory redemption payment by Berkshire to the Company. If NICO makes no payments under the cut-through agreements, then of the pledged investments, \$100.0 million matures in March 2025. The remaining amount is subject to mandatory redemption annually provided the Company is paying claims on policies covered by the cut-through agreements and NICO is not required to pay any amounts under any cut-through agreement. Because the Berkshire corporate obligations have been pledged as collateral to Berkshire, the Company does not have the intent or, in the absence of a voluntary agreement from Berkshire, the ability to dispose of the investments prior to maturity or redemption. At December 31, 2011 and 2010, respectively, \$20.4 million and \$21.0 million of the Company's gross outstanding loss and LAE reserves were protected by the NICO cut-through. Additionally, Note 23 and Schedule F show that the Company cedes to Berkshire (group 31) liabilities totaling \$22.4 million at December 31, 2011.

NICO also separately provided, for initial and annual fees, an appeals bond facility that the Company and its affiliates used primarily in connection with litigated claims. The Company fully collateralized appeal bonds with the pledge of an investment in a Berkshire corporate obligation (Schedule D admitted asset) purchased from Berkshire. At December 31, 2011 and 2010, the Company pledged zero of its assets as collateral for this purpose.

In connection with a now commuted reinsurance arrangement in 2001, the Company entered into a long-term claim administration agreement with National Fire for the servicing of portions of the Company's and its affiliates' existing asbestos and environmental claims. The Company paid in advance for the future servicing of such claims. In accordance with a prescribed accounting practice more fully described in Note 1, the Company reflects as an admitted asset the remaining prepaid amount for such claim handling services; that amount has declined to approximately \$3.0 million at December 31, 2011 from \$3.7 million as of December 31, 2010.

### ***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 ("SeaBright"). As part of the 2003 sale transaction, the Company provided a stop loss reinsurance agreement to SeaBright and collateralized that reinsurance with a collateral trust. The Company's assets in that collateral trust totaled \$3.1 million at December 31, 2011, and \$3.8 million at 2010. Under a claim administration services agreement SeaBright also provides certain claim handling services with respect to approximately 260 claims (accounting for \$17.3 million of net outstanding loss and LAE reserves at December 31, 2011) 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.) Both the stop loss reinsurance agreement and the claim administration services agreement provide for a final valuation at December 31, 2011 with a cash settlement to occur within the second quarter of 2012. The Company has established in the 2011 statutory financial statements what it believes are reasonable estimates of its liabilities under both agreements.

### ***Canada Branch Office***

During 2010, the Company entered into an Assumption Reinsurance Agreement ("Agreement") with Omega General Insurance Company ("Omega"), a Canadian insurance company which provided for Omega to assume all of the insurance policy liabilities of the Company's Canadian branch, with limited exceptions. As a result, this transaction enabled the closure in July 2011 of the Company's Canadian branch, and the repatriation of excess capital of approximately \$2.5 million.

## NOTES TO FINANCIAL STATEMENTS

Pursuant to the transaction, Omega has assumed the Company's Canadian branch insurance liabilities net of reinsurance totaling approximately \$0.5 million. In exchange, Omega received cash equal to the net insurance liabilities assumed plus approximately \$1.3 million. In addition, from the Canadian branch assets the Company funded an adverse development fund with Omega totaling \$5.0 million. The Agreement requires Omega to refund to the Company in 2016 the full amount of the adverse development fund adjusted for loss experience through December 31, 2015. In accordance with the Manual, the Company has recorded an asset of \$5.0 million based upon the adjustable feature of the Agreement. The Agreement received regulatory approval of the Department and the Office of the Superintendent of Financial Institutions Canada.

### *Other International Operations*

The Company's other international operations during 2011 consisted of an Australian subsidiary, in run-off for more than a decade. The Australian subsidiary accounted for approximately \$1.8 million of the Company's statutory surplus at December 31, 2011. The Company has guaranteed most policies issued in Australia (see Note 14), and the Company also reinsures most of those policies for any losses excess of \$50 thousand. The Australian subsidiary remains available for sale.

### *Impairment Write-downs*

The Company did not have any impairment writedowns on investments in subsidiaries during 2011 or 2010.

### *Return of Capital and Income Dividends*

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

## NOTES TO FINANCIAL STATEMENTS

The Company recorded return of capital and income dividends from the following wholly owned subsidiaries during 2011 and 2010:

	2011	2010
	(In thousands)	
LCIC <sup>1</sup>	\$ 2,000	\$ 1,000
AMICO <sup>2</sup>	1,500	0
SSIC <sup>3</sup>	500	500
LIC	104	135
LGA-17, Inc.	53	62
Total	\$ 4,157	\$ 1,697

<sup>1</sup>LCIC's Board of Directors approved a \$2.0 million return of capital dividend payable December 15, 2011, and a \$1.0 million return of capital dividend payable November 30, 2010, to the Company.

<sup>2</sup>AMICO's Board of Directors approved a \$1.5 million income dividend payable December 15, 2011.

<sup>3</sup>SSIC's Board of Directors approved a \$0.5 million income dividend payable December 15, 2011, and a \$0.5 million income dividend payable November 30, 2010, to the Company.

### *Intercompany Transactions*

The Company reported the following amounts due from (to) affiliates at December 31, 2011 and 2010:

Affiliate	December 31, 2011	December 31, 2010
	(In thousands)	
AMICO	\$ (8)	\$ (34)
AMM	67	62
SSIC	5	3
LCIC	227	126
LICT	3	2
All other affiliates	171	389
Total due from (to) affiliates	\$ 465	\$ 548

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

### 11. DEBT

None.

## NOTES TO FINANCIAL STATEMENTS

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

#### A. Defined Benefit Plan

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

#### B. Defined Contribution Plans

##### *Profit Sharing Plan*

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

##### *Retention Plans*

The Company's workforce was 130 employees at December 31, 2011, reduced from 150 employees at December 31, 2010. To help stabilize the workforce, the Company maintains a retention plan providing for scheduled quarterly payments. The retention payments for 2011 and 2010 totaled \$3.2 million and \$4.5 million, respectively.

##### *Incentive Plans*

The Company has maintained since 2004 an annual incentive plan linked to successfully achieving or exceeding certain targets as anticipated from time to time in the Company's run-off plan (the "Short-Term Plan"). In addition to the Short-Term Plan, the Company, with approval from the Department in 2006, established a long-term incentive plan linked to the successful maintenance of the commercial run-off as anticipated in the Company's run-off plan. The Company discontinued the long-term incentive plan in 2011. The Company has accrued approximately \$1.5 million and \$3.5 million under the incentive plans at December 31, 2011 and 2010, respectively. Incentive plan payments totaled \$4.2 million in 2011 and \$6.5 million in 2010.

##### *Restricted Stock, Other Deferred Compensation, and Stock Option Plans*

The Company carried deferred compensation liabilities of approximately \$0.2 million at December 31, 2011 and 2010.

##### *Postretirement Benefits*

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

#### C. Multiemployer Plans

None.

#### D. Consolidated/Holding Company Plans

None.

## NOTES TO FINANCIAL STATEMENTS

### E. Postemployment Benefits and Compensated Absences

The Company maintains an employee severance program that provides a maximum benefit of up to one year of salary depending on the level of an employee and service time with the Company. Severance liabilities are not reflected on the Company's balance sheet until a decision is reached that a specific employee or group of employees is to be terminated without cause. Severance payments in 2011 and 2010 totaled \$0.7 million and \$3.5 million, respectively, and severance liabilities recorded at both December 31, 2011 and 2010 totaled \$0.4 million. In 2006, with the approval of the Department, the Company made a one-time deposit encumbering \$4.75 million in a long-term retention trust to secure its contingent severance obligations.

The Company provides disability benefits to employees who were disabled when the Company self-insured its long-term disability plan. The obligation under this plan was \$0.4 million and \$0.6 million as of December 31, 2011 and 2010, respectively.

### F. Impact of Medicare Modernization on Postretirement Benefits

None.

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

At December 31, 2011, unassigned surplus included unrealized capital gains of \$43.5 million. There were no unrealized foreign exchange capital gains.

The Company had the following surplus notes issued and outstanding at December 31, 2011:

Interest Rate/ Description	Issue Date	Maturity Date	Par or Face Value	Amounts in thousands			
				Carrying Value of Surplus Notes	Interest Paid 2010-2011	Total Interest Paid	Accrued Interest 12/31/11
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, 2011 and 2010.

All surplus notes were issued pursuant to Rule 144A of the Securities Act of 1933. The Fiscal Agent for all surplus notes is BNY Mellon Trust Company of Illinois. Any payments of principal and interest are to be made by the Company through the Fiscal Agent or The Depository Trust Company, New York, New York. All surplus notes are unsecured and subordinated to all present and future indebtedness, policy claims, and prior claims of the Company. The surplus notes are not entitled to a sinking fund. As it relates to the surplus notes, the Company is not restricted from incurring any future indebtedness, policy claims, or prior claims. Under SAP, the surplus notes are part of surplus for financial statement purposes. The 30-Year notes and the 40-Year notes may not be redeemed at the option of the Company or any holder of the notes prior to maturity. Upon the occurrence and during the continuation of certain events, the Company has the right, if certain conditions are met, to shorten the maturity of the 100-Year notes, or subject to the prior written approval of the Director of the Department, to redeem them in whole but not in part.

Each payment of interest on and/or repayment of principal of the surplus notes may be made only with the prior approval of the Director of the Department, which approval will only be granted if, in the judgment of the Director of the Department, the financial condition of the Company warrants the making of such payments and the Company's policyholders' surplus reflects sufficient funds to cover the amount of such payment. The Director of the Department has denied the Company's 2011 and 2010 requests for payment of interest on the surplus notes due on June 1 and July 1 and on December 1 and January 1. (See Note 14.) All payments of interest scheduled since January 1, 2003 have not been paid due to disapprovals by the Director of the Department based on the Company's financial condition. The cumulative amount of interest that was scheduled to be paid but is unpaid, plus the amount otherwise accruing in 2011 for which scheduled interest payment dates have not yet arrived, totaled \$556.9 million as of December 31, 2011. In accordance with SAP, this total amount is not reflected as a liability on the Company's balance sheet as of December 31, 2011.

## NOTES TO FINANCIAL STATEMENTS

### 14. CONTINGENCIES

#### A. Contingent Commitments

##### *Affiliate and Other Guarantees*

The Company has provided guarantees of certain policy liabilities of its Australian and former Belgium subsidiaries, has issued its own policies to most policyholders of AMM, and has intercompany balances due certain affiliates. (See Note 10.) The Company is contingently liable for \$291.0 million related to structured settlement annuities. (See Note 27.)

##### *Securities on Deposit/Encumbered Assets*

Of the Company's cash and invested assets at December 31, 2011, \$399.4 million are encumbered by being on deposit or held in trust or escrow arrangements, compared with \$419.6 million one year earlier, as shown in the following table:

	December 31, 2011 (In thousands)	December 31, 2010
Special Deposits/Encumbered Assets:		
State Deposits	\$ 224,242	\$ 235,588
NICO Cut-Through Collateral	154,091	158,403
Canada Deposits	0	2,533
All Other	21,028	23,095
	399,361	419,619
Unencumbered Assets:		
Cash, Bonds and Receivable for		
Securities	273,180	252,349
Affiliate Common Stock	58,576	60,440
Other Assets	14,215	14,070
	345,971	326,859
Cash and Invested Assets	\$ 745,332	\$ 746,478

The Company's carried value of state deposits changed primarily due to releases totaling \$11.3 million and \$45.3 million during 2011 and 2010, 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 both December 31, 2011 and 2010, the Company had pledged invested and other assets of zero, for such bonds.

Of the Company's invested assets at December 31, 2011, \$154.1 million provide collateral for Berkshire affiliates related to the NICO cut-through agreements. (See Note 10.) This amount reflects a \$4.3 million reduction from a year earlier. Of the cut-through encumbered assets at December 31, 2011, \$54.1 million are subject to release to the Company annually as claim payments are made on policies to which the NICO cut-through agreements are attached so long as NICO is not required to pay any amounts on LMG policies that have the benefit of cut-through agreements.

The Company is contingently liable to provide up to an estimated additional \$1.4 million in collateral due to ratings triggers in reinsurance agreements where it is a reinsurer. Of this amount, \$2.7 million has been funded with assets of an unrelated third party, Alea Bermuda Ltd. ("Alea"), for business where the Company from late 1999 to year-end 2001 fronted assumed reinsurance contracts in the U.S. for Alea. Alea's insurance ratings fell to below the "A" level in 2005, and Alea and its affiliates subsequently went into run-off status. Alea's reinsurance obligations to the Company for the fronted liabilities are secured by collateral trust assets of Alea in the amount of \$29.1 million at December 31, 2011. Alea also has handled claims on behalf of the Company since 1999 on both the fronted liabilities and, at December 31, 2011, \$13.0 million of other assumed reinsurance liabilities written by the Company from 1997 through 1999. The Company is dependent on Alea for the claim handling and its related accounting.

## NOTES TO FINANCIAL STATEMENTS

In addition to the encumbrances applicable to the Company's cash and invested assets that are reflected in the preceding table and in Schedule E, Part 3, Special Deposits, the Company has certain reinsurance related assets which have been pledged or otherwise encumbered. Such encumbered assets include funds held by or deposited with reinsured companies totaling approximately \$17.1 million, as shown on line 16.2 on the Company's balance sheet at December 31, 2011. Pursuant to a prescribed accounting practice, the balance sheet of the Company at December 31, 2011 and 2010 reflects as admitted assets funds held with reinsured companies that exceed the liabilities they are intended to secure. With this prescribed practice, the Company's reported surplus exceeded what its surplus would have been by \$5.1 million at December 31, 2011 and \$5.9 million at December 31, 2010. (See Note 1.A.) Additionally, certain reinsurance recoverables serve as additional security for the NICO cut-through (see Note 10), and reinsurance recoverables for claims paid and to be paid by certain Markel Corporation subsidiaries related to business written by companies that the Company acquired from Markel in 1998 and 1999 (\$27 thousand at December 31, 2011). 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 \$13.9 million at December 31, 2011.

### 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 2011 and prior. The Company's financial statements include provisions for all known assessments that are expected to be levied against the Company. A prescribed accounting practice for 2011 allows the Company to forego the requirement to record an estimate of guaranty fund assessments that have been authorized by certain guaranty funds but not called. With this prescribed practice, the Company's reported surplus exceeded what it would have been by \$1.3 million at December 31, 2011. (See Note 1.A.) The Company is also contingently liable for any future guaranty fund assessments related to insolvencies of unaffiliated insurance companies for which the insurance industry has been unable to estimate the cost to cover losses to policyholders. No specific amount can be reasonably estimated for such insolvencies as of December 31, 2011. The Company also established a liability for premium and loss based assessments of \$5.0 million as of December 31, 2011, compared with approximately 6.1 million as of December 31, 2010. A prescribed accounting practice allows the Company to discount at 4.2% and to calculate its December 31, 2011 and 2010 LBA liability based on an estimate of LBA payments to be made within two years of the date of the statutory financial statements. With this prescribed practice, the Company's reported surplus exceeded what it would have been by \$28.1 million at December 31, 2011 and \$29.7 million at December 31, 2010. (See Note 1.A.)

### C. Gain Contingencies

None.

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

The Company paid the following amounts in the reporting period to settle claims related extra contractual obligations or bad faith claims stemming from lawsuits.

	Direct
Claims related ECO and bad faith losses paid during the reporting period	\$ 104,101

Number of claims where amounts were paid to settle claims related extra contractual obligations or bad faith claims resulting from lawsuits during the reporting period.

(a) 0-25 Claims	(b) 26-50 Claims	(c) 51-100 Claims	(d) 101-500 Claims	(e) More than 500 Claims
	X			

Indicate whether claim count information is disclosed per claim or claimant.

(f) Per Claim [ X ]

(g) Per Claimant [ ]

### E. Product Warranties

None.



## NOTES TO FINANCIAL STATEMENTS

### F. All Other Contingencies

#### *Ratings*

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

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

#### *Risk-Based Capital and Risk of Insolvency*

The NAIC utilizes a risk-based capital ("RBC") formula intended for regulatory monitoring of property-casualty insurers. Under RBC rules in Illinois, state regulators may mandate remedial action for inadequately capitalized companies. The focus of the capital rules is a risk-based formula that applies prescribed factors to various risk elements in an insurer's business and investments to develop a minimum capital requirement designed to be proportional to the amount of risk assumed by the insurer. For the last eight years, excluding the benefit of prescribed and permitted accounting practices, the Company's level of surplus has been at the "mandatory control level" under the RBC rules. At this level, the Department has substantial authority to exercise control over the Company and its affiliates. The Department is mandated to place a company at this level under its control, except where, as is the case with the Company, such company is a property and casualty insurance company that is no longer writing new business and is running off its existing business, in which case the Director of the Department has discretion to allow the continued run-off.

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

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

The Department continues to closely monitor the Company's progress in achieving the objectives of the run-off plan. As has been the case for almost nine years, the Department retains the discretion at any time to seek to place the Company in a formal insolvency proceeding (conservatorship or receivership, rehabilitation or liquidation). The risk of a proceeding would be exacerbated if the Company fails to have sufficient liquid assets to meet its current obligations, or

## NOTES TO FINANCIAL STATEMENTS

if the Company's reported liabilities at any time exceed its reported assets, or if the Company fails to meet the surplus and liquidity projections set forth in the run-off plan.

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

### ***Surplus Considerations***

At December 31, 2011, the Company's balance sheet shows that its admitted assets exceed its liabilities by \$31.1 million, a \$3.7 million decrease in surplus from the level reported one year earlier.

The primary reasons for the relative stability of surplus in 2011 were the consummation of surplus-enhancing transactions with third parties, reduced expenses as a result of operational improvements, and certain accounting practices prescribed by the Department that increased surplus.

During 2011 and 2010, the Company's operating and other expenses (including amortization of the discount on loss and LAE reserves) have exceeded operating revenue (investment income, earned premium, and other income) by between \$3.0 million and \$4.0 million per month.

Reflecting the durations and interest rates of the Company's existing fixed income portfolio, market conditions, and the Company's anticipated liquidity needs, the Company's 2011 net effective yield on its cash and invested assets, excluding affiliate investments, declined to approximately 2.7% from the 3.4% rate in 2010. The Company uses a 4.2% rate to discount its loss and LAE reserves pursuant to an accounting practice prescribed by the Department. (See Note 1.A.) There can be no assurance that the Company's investment yields will remain at or near such level in future periods.

Surplus-enhancing transactions and operational improvements together produced benefits to surplus that partially offset the reduction in surplus caused by expenses exceeding revenues and by additions to loss and LAE reserves. Although involving use of liquidity (see *Liquidity Considerations* below), policy buybacks, novations of commercial policies and other settlements by the Company of liabilities for less than carried reserves remain a focus of the Company's management and its run-off plan at this time. Additionally, the run-off initiatives include assumed reinsurance commutations which are similar to direct policy buybacks, in that in both types of transactions the Company, whether in the role of insurer or reinsurer, can realize surplus, liquidity, or other benefits as the Company is released from its liabilities.

During 2011, policy buybacks, novations, and assumed reinsurance commutations collectively added approximately \$5.4 million to the Company's surplus, for a net decrease in liquidity of approximately \$3.6 million. In 2010, they added approximately \$58.3 million to surplus for a net decrease in liquidity of approximately \$19.0 million. Buybacks, novations, and assumed reinsurance commutations resulted in the Company's gross and net loss and LAE reserves declining by \$11.6 million and \$6.1 million, respectively, in 2011 and by \$187.8 million and \$106.5 million, respectively, in 2010.

The Company's surplus at year ends 2011 and 2010 reflected, among other items, certain one-time, surplus-enhancing, events. If the Company is unable to maintain adequate levels of statutory surplus, which under the run-off plan requires the generation of surplus from transactions to partially offset the monthly surplus diminution from operating expenses and loss reserve discount amortization, then the commercial run-off plan may end with the Company being placed into a formal proceeding.

### ***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

## NOTES TO FINANCIAL STATEMENTS

order or otherwise, deterioration of reinsurance collections, increases in operating expenses, and other unanticipated strains on liquidity could cause the Company to have insufficient liquid and unencumbered assets to continue to pay obligations as they become due. As liquidity declines, there can be no assurance that formal proceedings would not be initiated by the Department significantly before the Company's projected liquidity would reach zero. The Company's \$346.0 million of unencumbered assets at December 31, 2011 shown in the table under *Securities on Deposit/Encumbered Assets* above in this Note 14 includes approximately \$72.8 million that, although unencumbered, are not necessarily immediately available funds, as this amount consists primarily of assets held in subsidiaries.

The Company is addressing potential future liquidity challenges by taking a number of actions, including, but not limited to, seeking the release of what the Company believes is excess collateral held by various governmental agencies, converting illiquid assets to liquid assets, continuing to collect on its reinsurance, and evaluating the possibility of, and implementing certain reinsurance commutations. The Company's run-off plan anticipates that portions of its encumbered assets will continue to be released as claims are paid and the remaining loss and LAE reserves are reduced. There are significant uncertainties with respect to the legal and regulatory issues related to releases of encumbered assets.

The Company recognizes the general principle that commutations of ceded reinsurance, if executed, could substantially increase liquidity. Reinsurance commutations, could potentially decrease surplus, since commutations involve present value or other discounting in return for cash, and to increase the risks of any future adverse loss and LAE reserve development, since the reinsurers would no longer share in such developments. During 2011 the Company executed a number of commutations that significantly increased the Company's liquidity, and resolved a number of disputes with reinsurers. (See Note 23.) Management remains focused on managing liquidity, surplus, and the balance between them.

### *Other*

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

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

### 15. LEASES

The Company leases office space and equipment under various non-cancelable operating lease agreements. Rental expense for 2011 and 2010 was \$2.4 million and \$2.8 million, respectively.

At December 31, 2011, the total aggregate minimum rental commitments on operating leases is \$4.5 million. Excluding the impact of any decisions to exercise options to reduce rented office space, the Company's future minimum rental commitments are as follows:

Year Ending December 31		Operating Leases
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**NOTES TO FINANCIAL STATEMENTS**

		(In thousands)	
2012		\$	784
2013			1,092
2014			1,129
2015			1,165
2016			300
		\$	4,470

**16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK**

None.

**17. SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES**

None.

**18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS**

None.

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

None.

**20. FAIR VALUE MEASUREMENTS**

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

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

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

*Bonds:* Fair values for bonds are determined using quoted market prices from an orderly market at the reporting date for those or similar investments. If quoted market prices from an orderly market are not available, the fair value is determined using an income approach valuation technique (present value using the discount rate adjustment technique) that considers, among other things, interest rates, the issuer’s credit spread, prepayments, performance of the underlying collateral for loan-backed securities and illiquidity by sector and maturity.

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

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

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

The statement values and fair values of the Company’s financial instruments at December 31, 2011 and 2010 were as follows:

	2011		2010	
	Statement	Fair	Statement	Fair

**NOTES TO FINANCIAL STATEMENTS**

	value	value	value	value
	(In thousands)			
Financial instruments recorded as assets:				
Bonds	\$ 578,122	574,481	626,204	623,206
Cash, cash equivalents, and short-term investments	94,418	94,418	45,385	45,385
Unaffiliated common stocks	816	816	816	816

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

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

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

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

The following table summarizes assets measured at fair value at December 31, 2011:

	Fair value measurement category			Total statement value
	Level 1	Level 2	Level 3	
	(In thousands)			
Unaffiliated common stock Industrial & Miscellaneous	\$ 0	0	816	816
Total common stock (unaffiliated)	0	0	816	816
Total	\$ 0	0	816	816

At December 31, 2010, the Company’s Level 2 residential mortgage-backed bond (CUSIP # 1266XAA3) was carried at fair value. At December 31, 2011, due to a change in the NAIC designation, the bond is carried at book value.

The fair value of the Company’s Level 3 private placement common stock is the present value of the Company’s share of the equity value of Facility Ins Hldg Corp’s (FIHC) class A common stock per its most recent audited financial statements. The equity value was discounted from the August 1, 2017 Special Dividend date provided for in FIHC’s Articles of Incorporation using a 6% discount rate.

The following table reconciles the December 31, 2011 and 2010 statement values of assets measured at fair value using significant Level 3 inputs:

	Bonds (NAIC 3-6) – residential mortgage-backed	Unaffiliated common stock – industrial & miscellaneous	
--	--	--	--

## NOTES TO FINANCIAL STATEMENTS

				Total
			(In thousands)	
Statement value at 12/31/2010	\$	0	816	816
Transfers into Level 3		0	0	0
Transfers out of Level 3		0	0	0
Total gains or losses:				
Realized included in net income		0	0	0
Unrealized included in surplus		0	0	0
Amortization of premium/discount		0	0	0
Purchases		0	0	0
Issuances		0	0	0
Sales		0	0	0
Settlements		0	0	0
Statement value at 12/31/2011	\$	0	816	816

The Company's policy is to recognize transfers into and transfers out of the Level 3 category as of the beginning of the reporting period.

## 21. OTHER ITEMS

## A. Extraordinary Items

None.

## B. Troubled Debt Restructuring: Debtors

None.

## C. Other Disclosures

None.

## D. Nature of Reasonably Possible Uncollectible Balances for Assets Covered by SSAPs No. 6, No. 47 or No. 66

None.

## E. Business Interruption Insurance Recoveries

None.

## F. State Transferable Tax Credits

None.

## G. Subprime-Mortgage-Related Risk Exposure

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

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

At December 31, 2011, the Company's subprime exposure includes only residential mortgage-backed securities owned by the Company and one of its subsidiaries as summarized below (in thousands):

	Cost	Book/Adjusted Carrying Value	Fair Value
Company investments	\$ 13,052	13,038	11,800
Subsidiary investments	415	413	324
Total	\$ 13,467	13,451	12,124

## NOTES TO FINANCIAL STATEMENTS

The Company did not recognize any other-than-temporary impairment losses during 2011 related to subprime mortgages and does not expect losses, related to its subprime exposure summarized above, due to potential sales to meet future cash flow requirements.

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

### 22. EVENTS SUBSEQUENT

The Company performed an evaluation of subsequent events through February 29, 2012 the date the combined statutory financial statements were issued, and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the combined statutory financial statements as of December 31, 2011.

## NOTES TO FINANCIAL STATEMENTS

## 23. REINSURANCE

## A. Unsecured Reinsurance Recoverables

The Company has unsecured aggregate recoverables from unaffiliated reinsurers for losses and LAE paid and unpaid including IBNR and unearned premium that exceed 3% of the Company's policyholder surplus at December 31, 2011, with the following reinsurers (and related group members):

FEIN CODE	NAIC GROUP #	NAIC CODE	REINSURER	AGGREGATE RECOVERABLE
				(In thousands)
47-6021331	31	20079	National Fire & Marine Insurance Co.	\$ 22,357
			31 Group Total	22,357
47-0574325	98	32603	Berkley Insurance Co.	362
53-0067060	98	21784	Firemens Insurance Co. of Washington DC	331
41-1232071	98	31003	Tri State Insurance Co. of Minnesota	371
			98 Group Total	1,064
13-2781282	158	25070	Clearwater Insurance Co.	4,576
23-2745904	158	10019	Clearwater Select Insurance Co.	4,131
47-0698507	158	23680	Odyssey America Reinsurance Corp.	4,980
			158 Group Total	13,688
13-3440360	181	29700	North American Elite Insurance Co.	14
06-0839705	181	82627	Swiss Reinsurance Life & Health America, Inc.	1,000
13-1675535	181	25364	Swiss Reinsurance America Corp.	167,984
48-0921045	181	39845	Westport Insurance Corp.	19,117
			181 Group Total	188,115
36-2114545	218	20443	Continental Casualty Co.	6,135
			218 Group Total	6,135
13-4924125	361	10227	Munich Reinsurance America, Inc.	37,634
			361 Group Total	37,634
74-0484030	408	60739	American National Insurance Co.	1,209
			408 Group Total	1,209
06-0237820	626	20699	Ace Property & Casualty Insurance Co.	2,243
			626 Group Total	2,243
23-1641984	796	10219	QBE Reinsurance Corp.	2,602
			796 Group Total	2,602
22-2005057	1120	26921	Everest Reinsurance Co.	1,484
			1120 Group Total	1,484
04-2475442	1129	20621	OneBeacon America Insurance Co.	102
23-1471444	1129	21962	Pennsylvania General Insurance Co.	227
13-2997499	1129	38776	Sirius America Insurance Co.	723
			1129 Group Total	1,052
06-1430254	1279	10348	Arch Reinsurance Co.	1,886
			1279 Group Total	1,886
	NAIC GROUP #	NAIC CODE	REINSURER	AGGREGATE RECOVERABLE
FEIN CODE				



## NOTES TO FINANCIAL STATEMENTS

				(In thousands)
75-6017952	1285	24554	XL Insurance America, Inc.	\$ 55
13-1290712	1285	20583	XL Reinsurance America, Inc.	2,309
			1285 Group Total	2,363
43-1898350	2538	11054	Maiden Reinsurance Co.	6,009
			2538 Group Total	6,009
41-6009967	3548	24015	Northland Insurance Co.	28
41-0406690	3548	24767	St. Paul Fire & Marine Insurance Co.	2,231
06-0566050	3548	25658	Travelers Indemnity Co.	1,070
52-0515280	3548	25887	United States Fidelity & Guaranty Co.	298
			3548 Group Total	3,627
AA-1580015			Aioi Nissay Dowa Insurance Co., Ltd.	1,874
AA-3190800			Alea (Bermuda) Ltd.	41,724
ZZ-0000119			Alice Re, Ltd.	1,696
AA-3190829			Alterra Bermuda Ltd.	14,400
AA-3770124			Columbus Insurance Ltd.	1,471
AA-3194130			Endurance Specialty Insurance Ltd.	2,801
23-2153760		39675	Excalibur Reinsurance Corp.	2,057
AA-9995022			Excess & Casualty Reinsurance Assn.	2,966
AA-9995013			Global Aerospace, Inc.	52,626
AA-1340125			Hannover Rueckversicherungs Ag	1,653
AA-9991160			New Jersey Unsatisfied Claim & Judgement Fund	3,112
23-0580680		24457	Reliance Insurance Co.	4,251
AA-9991444			Texas Workers Compensation	12,583
ZZ-0000070			Washington State USL&H Comp Act Assigned Risk	1,348
41-1357750		10181	Workers Compensation Reinsurance Assn.	8,103
Total Aggregate Unsecured Reinsurance Recoverables in excess of 3% of the Company's surplus				\$ 444,131

**B. Reinsurance Recoverables in Dispute**

The Company has reinsurance recoverable balances with the following reinsurer which is in dispute and exceeds 5% of the Company's policyholders surplus:

Name of Reinsurer	Total Amount in Dispute (including IBNR)	Notification	Arbitration	Litigation
Clearwater Insurance Co.	\$ 1,587	\$ 0	\$ 1,587	0

## NOTES TO FINANCIAL STATEMENTS

### 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, 2011, is shown below:

(In thousands)	ASSUMED REINSURANCE		CEDED REINSURANCE		NET	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
(i) Affiliates	\$ 1,767	\$ (4)	\$ 12	\$ 0	\$ 1,755	\$ (4)
(ii) All other	129	(84)	693	3,020	(564)	(3,104)
(iii) Total	\$ 1,896	\$ (88)	\$ 705	\$ 3,020	\$ 1,192	\$ (3,108)
(iv) Direct Unearned Premium Reserves:	\$ 221					

(2) Certain reinsurance agreements provide for additional or return commissions based on the actual loss experience of the reinsured business. At December 31, 2011, based on then current estimates, the Company's accrual for net contingent commissions was a net asset of approximately \$4.3 million. This accrued amount is included in line 25 under "Assets" on the Company's December 31, 2011 balance sheet. Such amounts have been estimated based on actuarial techniques and as such are subject to periodic re-evaluation.

(In thousands)	DIRECT	ASSUMED	CEDED	NET
(i) Contingent Commission	\$ 0	\$ (5,000)	\$ (16)	\$ (4,984)
(ii) Sliding Scale Adjustments	0	0	(635)	635
(iii) Other Profit Commission Arrangements	0	0	0	0
(iv) Total	\$ 0	\$ (5,000)	\$ (651)	\$ (4,349)

### D. Uncollectible Reinsurance

The Company has written off in the current year reinsurance balances due from the companies listed below of \$0.7 million.

Reinsurer	Amount	Reflected As
	(In thousands)	
Excess & Casualty Reinsurance Assn.	\$ 618	Other
Columbus Insurance Ltd.	123	Other
Sentry Insurance A Mutual Co.	10	Other
Munich Reinsurance America, Inc.	5	Other
Total	\$ 757	

## NOTES TO FINANCIAL STATEMENTS

## E. Commutation of Ceded Reinsurance

The Company has reported the following amounts in its 2011 operations year as a result of commutations of ceded reinsurance with the companies listed below:

Reinsurer	FEIN Code	Amount	Reflected As
		(In thousands)	
Ace Property & Casualty Insurance Co.	06-0237820	\$ 232	Losses Incurred
Affinity Insurance Ltd.	AA-3770114	(484)	Losses Incurred
Alea (Bermuda) Ltd.	AA-3190800	1,931	Losses Incurred
Alea North America Insurance Co.	06-1022232	(113)	Losses Incurred
Alterra Bermuda Ltd.	AA-3190829	(733)	Losses Incurred
American Fuji Fire & Marine Insurance Co.	36-3155373	(19)	Losses Incurred
American Motorists Insurance Co.	36-0727430	(26)	Losses Incurred
American United Life Insurance Co.	35-0145825	18	Losses Incurred
Arbella Mutual Insurance Co.	04-3022050	(82)	Losses Incurred
Archway Insurance Co. Ltd.	AA-3771100	(633)	Losses Incurred
Australian World Underwriters	ZZ-0000054	(6)	Losses Incurred
AXA Versicherung AG	AA-1340055	(403)	Losses Incurred
Berkley Insurance Co.	47-0574325	(4,814)	Losses Incurred
Century Indemnity Co.	06-6105395	1,918	Losses Incurred
Employers Insurance Co. of Wausau	39-0264050	663	Losses Incurred
Employers Insurance Co. of Wausau	39-0264050	(7)	Other
Excalibur Reinsurance Co.	23-2153760	577	Losses Incurred
Excalibur Reinsurance Co.	23-2153760	2	Other
Factory Mutual Insurance Co.	05-0316605	(505)	Losses Incurred
Fuji Fire & Marine Insurance Co. Ltd.	AA-1580035	(135)	Losses Incurred
General Reinsurance Corp.	13-2673100	(3,160)	Losses Incurred
General Reinsurance Corp.	13-2673100	17	Other
General Security National Insurance Co.	13-3029255	(2,710)	Losses Incurred
Hartford Accident & Indemnity Co.	06-0383030	3	Losses Incurred
Hartford Fire Insurance Co.	06-0383750	(486)	Losses Incurred
Insurance Co. of North America, Inc.	23-0723970	(115)	Losses Incurred
MAC Casualty Ltd.	AA-3770137	(103)	Losses Incurred
Munich Reinsurance America, Inc.	13-4924125	(2,982)	Losses Incurred
Mutual Reinsurance Bureau	AA-9995035	(396)	Losses Incurred
National Casualty Co.	38-0865250	314	Losses Incurred
National Reinsurance Corp.	13-1988169	(53)	Losses Incurred
Nationwide Mutual Insurance Co.	31-4177100	100	Losses Incurred
<b>Reinsurer</b>	<b>FEIN Code</b>	<b>Amount</b>	<b>Reflected As</b>
		(In thousands)	

**NOTES TO FINANCIAL STATEMENTS**

New England Reinsurance Corp.	06-1053492	\$ 29	Losses Incurred
Patriot Insurance Co., Ltd.	AA-3190450	(164)	Losses Incurred
Penn Manufacturers Assn.	23-1642962	355	Losses Incurred
Praetorian Insurance Co.	36-3030511	(4)	Losses Incurred
SCOR Reinsurance Co.	75-1444207	(12,004)	Losses Incurred
SCOR Reinsurance Co.	75-1444207	5	Other
Stonebridge Casualty Insurance Co.	31-4423946	(7)	Losses Incurred
Summit Insurance Ltd.	AA-3770093	(343)	Losses Incurred
Swiss Reinsurance America Corp.	13-1675535	2,107	Losses Incurred
Transatlantic Reinsurance Co.	13-5616275	(2,598)	Losses Incurred
Westport Insurance Corp.	48-0921045	12	Losses Incurred
Total		\$ (24,802)	

**F. Retroactive Reinsurance**

None. (See Note 1.A.)

**G. Reinsurance Accounted for as a Deposit**

None.

**H. Disclosure for the Transfer of Property & Casualty Run-Off Agreements**

None.

**24. RETROSPECTIVELY RATED CONTRACTS & CONTRACTS SUBJECT TO REDETERMINATION**

- A. Accrued retrospective premiums reported on Page 2, Assets, Line 15.3, Column 3 have been determined based upon loss experience on business subject to retrospective rating and dividend recall plans.
- B. Accrued retrospective premiums are recorded through an adjustment to earned premium.
- C. For detail of net premium written subject to retrospective rating features, see Schedule P - Part 7A.
- D. Medical loss ratio rebates required pursuant to the Public Health Service Act.  
None.
- E. Ten percent of the amount not offset by retrospective return premium or collateral has been designated nonadmitted and charged to surplus.

	December 31, 2011
	(In thousands)
Accrued retrospective premium	\$ 5,453
Less: Nonadmitted amount	162
Admitted amount	\$ 5,291

**25. CHANGES IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES**

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

	2011	2010
	(In thousands)	
Balance as of January 1, net of reinsurance recoverables of \$543,567 in 2011 and \$890,864 in 2010	\$ 686,760	\$ 890,481
Incurring related to:		
Prescribed accounting practices - current accident year	(61,882)	(64,225)
Prescribed accounting practices - prior accident years	64,225	0
Current accident year development	1,183	1,344
Prior accident years development	31,227	64,100
Total incurred	34,753	1,219
Paid related to:		

## NOTES TO FINANCIAL STATEMENTS

Current accident year	(293)	(381)
Prior accident years	(48,885)	(204,559)
Total paid	(49,178)	(204,940)
Balance as of December 31, net of reinsurance recoverables of \$410,310 in 2011 and \$543,567 in 2010	\$ 672,335	\$ 686,760

2011 Calendar Year

The incurred loss and LAE reserves related to current accident year is comprised of prescribed accounting practices of \$(61.9) million and development of \$1.2 million.

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

1. Nominal favorable loss and LAE reserve development of \$87.2 million comprised primarily of (a) a \$44.5 million decrease arising from a prescribed accounting practice to reduce direct loss and ALE reserves, less amounts ceded to reinsurers, by 5%; and (b) a \$37.2 million decrease arising from a prescribed accounting practice to record a two year estimate for assumed loss and ALE reserves, less offsets available to reinsurers, and; (c) a \$5.5 million decrease arising from a prescribed accounting practice to record a two year estimate for ULAE reserves; and
2. A reduction of discount of \$25.3 million comprised primarily of (a) a \$13.5 million decrease arising from a prescribed accounting practice to reduce direct loss and ALE reserves, less amounts ceded to reinsurers, by 5%; and (b) a \$11.2 million decrease arising from a prescribed accounting practice to record a two year estimate for assumed loss and ALE reserves, less offsets available to reinsurers, and; (c) a \$0.6 million decrease arising from a prescribed accounting practice to record a two year estimate for ULAE reserves.

The incurred loss and LAE reserves related to prior accident years is comprised of prescribed accounting practices of \$64.2 million and development of \$31.2 million.

The prior accident year incurred in 2011 is due to:

1. The prescribed accounting practices of \$64.2 (nominal \$88.3 million less discount of \$24.1 million) from December 31, 2010 was moved to the current accident year.
2. Nominal loss and LAE reserve increase of \$28.2 million was comprised of (a) a \$38.1 million increase arising primarily from deterioration in workers compensation, personal lines, surety, products liability and reinsurance nonproportional, that was partially offset by commercial auto liability, CMP, other liability and special liability and (b) a \$9.9 million decrease arising from buybacks, commutations, and novations; and
3. A reduction of discount of \$3.0 million comprised of (a) a \$27.6 million decrease for anticipated amortization of discount; and (b) a \$3.4 million decrease due to nominal reserve strengthening; and (c) a \$28.0 million increase associated with buybacks, commutations, and novations.

2010 Calendar Year

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

The current accident year prescribed accounting practices directed by the Department (see Note 1) is comprised of:

1. Nominal favorable loss and LAE reserve development of \$86.9 million comprised primarily of (a) a \$44.4 million decrease arising from a prescribed accounting practice to reduce direct loss and ALE reserves, less amounts ceded to reinsurers, by 5%; and (b) a \$36.5 million decrease arising from a prescribed accounting practice to record a two year estimate for assumed loss and ALE reserves, less offsets available to reinsurers, and; (c) a \$7.4 million decrease arising from a prescribed accounting practice to record a two year estimate for ULAE reserves; and
2. A reduction of discount of \$24.0 million comprised primarily of (a) a \$13.5 million decrease arising from a prescribed accounting practice to reduce direct loss and ALE reserves, less amounts ceded to reinsurers, by 5%; and (b) a \$10.3 million decrease arising from a prescribed accounting practice to record a two year estimate for assumed loss and ALE reserves, less offsets available to reinsurers, and; (c) a \$0.2 million decrease arising from a prescribed accounting practice to record a two year estimate for ULAE reserves.

## NOTES TO FINANCIAL STATEMENTS

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

The prior accident year development in 2010 is due to:

1. Nominal adverse loss and LAE reserve development of \$26.3 million comprised of (a) a \$15.9 million increase arising primarily from deterioration in workers' compensation, CMP, special property, surety and products liability, that was partially offset by favorable development in A&H, commercial auto liability, other liability, special liability, personal lines and reinsurance nonproportional and (b) a \$3.1 million increase arising from buybacks, commutations, and novations; and (c) a \$7.3 million increase which is attributable to a correction of an error (see Note 2); and
2. A reduction of discount of \$37.8 million comprised of (a) a \$36.0 million decrease for anticipated amortization of discount; (b) an \$9.2 million decrease due to nominal reserve strengthening; and (c) a \$5.2 million increase associated with buybacks, commutations, and novations; and (d) a \$2.2 million increase which is attributable to a correction of an error (see Note 2).

### 26. INTERCOMPANY POOLING ARRANGEMENTS

The Company is the lead LMG company. The significant majority of the business written by members of LMG has historically been ceded to the Company through quota share reinsurance agreements with some Company subsidiaries retaining a portion of the business written and through a quota share pooling agreement by and among the Company, AMICO, and AMM. Prior to 2003, of the insurance business directly written by the Company or ceded to the Company, including all business written by AMICO and AMM, the Company ceded (net of third-party, unaffiliated, reinsurance and excluding Canadian business) 15% to AMICO and 8% to AMM. (Third-party reinsurance has generally attached after cessions by affiliates to the Company, although some specific risks have been subject to facultative or other reinsurance before cession to the Company.) Effective January 1, 2003, the pooling agreement was amended to eliminate the 15% cession to AMICO, and effective December 31, 2003, the pooling agreement was amended to eliminate the 8% cession to AMM. The effect of both amendments was for the Company to retain all previously ceded risks, and the amendments were accompanied by transfers of assets by each of AMICO and AMM in order to satisfy the liabilities transferred to the Company by the pooling agreement amendments. As a result, at December 31, 2011 and 2010, the net reserves at each of AMICO and AMM are zero.

At the same time as the December 31, 2003 pooling agreement amendment, the Company assumed most of AMM's liabilities, agreed to perform for AMM all insurance policy-related obligations including handling and paying claims, and issued a Company policy to each holder of a policy ever issued by AMM, including any policy no longer in force but excluding any policy that is cut-through reinsured by Unitrin (see "*Kemper Auto & Home: Renewal Rights and Cut-Through*" in Note 10). The additional Company policy is substantively identical to the policy previously issued by AMM, although the Company policy is non-participating and non-voting with respect to the Company's corporate governance. The additional Company policy assures affected AMM policyholders that their claims will be treated equally with the claims of other Company policyholders not only in the event of a managed run-off of the Company and AMM (see Note 14) but also in the event of any insolvency proceedings with respect to the two companies. AMM remains liable for its policy liabilities in the event the Company does not comply with all the terms of the affected policies. In 2008 with the approval of the Department, the Company and AMM agreed to clarify certain expense allocation arrangements of the 2003 agreements and pooling agreement amendment by basing the allocations on the relative surplus of the two companies for 2008 and future years. The allocated expenses, primarily consisting of joint board travel expenses, shared D&O insurance costs, annual audit fees, and certain licensing costs, totaled \$1.2 million in 2011, with the Company's and AMM's respective shares being \$0.9 million and \$0.3 million. The 2008 agreement also made clear that consistent with their past practices, premium taxes remained the sole responsibility of the Company as AMM's 100% quota share reinsurer. \_\_\_\_\_

## NOTES TO FINANCIAL STATEMENTS

### 27. STRUCTURED SETTLEMENTS

- A. In limited circumstances to settle certain insurance claim liabilities, the Company from time to time since the late 1970s purchased from various life insurance companies structured settlement annuities naming the settling claimants as payees. In many of those settlements, the Company has remained the owner of the respective annuity and contingently liable to the claimant, that is, liable for the periodic payments in the event of the default or insolvency of the life insurance company. In a limited number of these settlements, the Company's purchase of annuities has resulted in a full release from the settling claimants without contingent liability. Where the Company's purchase of annuities has not fully released the Company from contingent liability, the Company has calculated the present value (at a 4.2% discount rate) of future unpaid annuity installments. At December 31, 2011, the Company's contingent liabilities for future unpaid annuity installments totaled \$291.0 million. Reflecting intercompany reinsurance arrangements, \$175.7 million of the Company's \$291.0 million of contingent liability arises on settlements of claims on policies initially issued by AMM, AMICO, and LICT.

## NOTES TO FINANCIAL STATEMENTS

B. The total value of annuities due from a life insurer in excess of 1% of the Company's surplus is shown in the table below.

Life Insurance Company <sup>(1)</sup>	Location	Amount
		(In thousands)
Genworth Life and Annuity Insurance Company	Richmond, VA	\$ 69,295
Symetra Life Insurance Company	Seattle, WA	28,824
Life Insurance Company of North America	Philadelphia, PA	22,283
Executive Life Insurance Company of New York <sup>(2)</sup>	New York, NY	18,861
Western National Life Insurance Company	Houston, TX	17,875
Manufacturers Life Insurance Company	Toronto, Canada	15,307
Monumental Life Insurance Company	Cedar Rapids, IA	12,987
Fidelity Life Association, a Legal Reserve Life Company	Chicago, IL	12,628
Metropolitan Life Insurance Company	Tampa, FL	11,943
Aviva Life and Annuity Company	West Des Moines, IA	8,883
Pacific Life Insurance Company	Newport Beach, CA	7,328
Midland National Life Insurance Company	Sioux Falls, SD	7,161
Prudential Insurance Company of America	Newark, NJ	7,152
Presidential Life Insurance Company	Nyack, NY	6,946
Protective Life Insurance Company	Birmingham, AL	5,018
Lincoln National Life Insurance Company	Ft. Wayne, IN	4,822
Transamerica Life Insurance Company	Cedar Rapids, IA	4,178
Allstate Life Insurance Company of New York	Hauppauge, NY	3,265
Aurora National Life Assurance Company	East Hartford, CT	2,561
American General Life Insurance Company	Houston, TX	2,213
New York Life Insurance Company	New York, NY	2,102
Metropolitan Life Insurance Company of Connecticut	Bloomfield, CT	2,068
American General Life Insurance Company of Delaware	Houston, TX	1,641
SunAmerica Life Insurance Company	Los Angeles, CA	1,550
Monarch Life Insurance Company <sup>(3)</sup>	Holyoke, MA	1,452
United States Life Insurance in the City of New York	Houston, TX	1,349
Transamerica Financial Life Insurance Company	Harrison, NY	1,347
Security Benefit Life Insurance Company	Topeka, KS	1,128
The Ohio National Life Insurance Company	Cincinnati, OH	1,047
Allstate Life Insurance Company	Northbrook, IL	984
United of Omaha Life Insurance Company	Omaha, NE	910
AXA Equitable Life Insurance Company	New York, NY	851
Stonebridge Life Insurance Company	Cedar Rapids, IA	611
Liberty Life Assurance Company of Boston	Boston, MA	571
Farmers New World Life Insurance Company	Mercer Island, WA	565
ING Life Insurance and Annuity Company	Atlanta, GA	526
Capitol Life Insurance Company <sup>(4)</sup>	Dallas, TX	525
Genworth Life Insurance Company of New York	New York, NY	498
Genworth Life Insurance Company	Richmond, VA	375
Washington National Insurance Company	Carmel, IN	340
All other		1,071
Total		\$ 291,041

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

<sup>(2)</sup> ELNY was placed in receivership by the New York Liquidation Bureau ("NYLB") in 1991 for purposes of rehabilitation and has continued to pay 100% of amounts due on all outstanding



## NOTES TO FINANCIAL STATEMENTS

annuities since then. In December 2011 the NYLB filed a Petition for Order of Liquidation and Approval of Restructuring Agreement providing for the reorganization of ELNY's liabilities in a newly formed entity. Based on information in the Petition, the NYLB asserts there are apparently now insufficient assets to satisfy ELNY annuity payees in full, and has now notified all individual ELNY structured settlement annuity payees and the owners of such annuities of the proposed ELNY liquidation and restructuring agreement, as well as the amount of an anticipated shortfall. The Company has now concluded for financial statement purposes that it is probable that it has incurred a liability for the anticipated shortfall. (See Note 1.A.) The assets of the newly formed entity will consist of a combination of existing ELNY assets and the contributions of the life-health guaranty associations. These assets will be used to fund the future unpaid installments of certain annuities, or "covered" annuities as referenced by the NYLB. The ELNY amount in the above table is the Company's contingent liability for the "covered" annuities.

<sup>(3)</sup> Monarch was placed in rehabilitation by the Insurance Commissioner of the Commonwealth of Massachusetts in June 1994. The Company is unsure as to the extent of Monarch's ability to pay its obligations as they mature.

<sup>(4)</sup> Capitol was placed in rehabilitation by the Insurance Commissioner of Texas in September, 2003. The Company is unsure as to the extent of Capitol Life Insurance Company's ability to pay its obligations as they mature.

### 28. HEALTH CARE RECEIVABLES

None.

### 29. PARTICIPATING POLICIES

None.

### 30. PREMIUM DEFICIENCY RESERVES

As of December 31, 2011, the Company had liabilities of \$0.4 million related to premium deficiency reserves compared to \$0.6 million at December 31, 2010. The Company used an offset of \$0.2 million for anticipated investment income based on an interest rate of 3.00% when calculating its premium deficiency reserves.

### 31. HIGH DEDUCTIBLES

As of December 31, 2011, the amount of reserve credits recorded for high deductibles on unpaid workers' compensation claims was \$241.2 million, and for non-workers' compensation claims it was \$3.4 million. The workers' compensation amount reflects both Broadspire handled claims and also claims handled by other third-party administrators. The non-workers' compensation amount reflects only claims handled by Broadspire. Information is not available for the non-workers' compensation claims not handled by Broadspire. The amount billed and recoverable on paid claims was \$0.6 million at December 31, 2011.

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

The Department requires the Company to discount all its loss and LAE reserves, using a 4.2% interest rate assumption. The Company utilizes a cash-flow methodology approach in determining the amount of this discount which is based on the underlying payout patterns for each line of business and each accident year. The total discount as of December 31, 2011 is \$274.8 million, of which \$77.6 million is for tabular discount on other A&H and workers' compensation indemnity claims where the claimant has been classified as permanent total or where the Company identifies a lifetime benefit potential.

With regard to tabular cases, the indemnity loss portion of unpaid workers' compensation pension cases are discounted on a tabular basis using the 1999 United States Decennial Life Tables for Female and Male Population at 3.5%, except for cases from New Jersey and New York. New Jersey cases use the 1999 United States Decennial Life Tables for Female and Male Population at 5.0%. New York cases use New York Special Bulletin 222 from the New York State Workers' Compensation Board at 3.0% or 6.0% depending on the accident date. Any supplemental discount associated with the Company's higher interest rate assumption is treated as non-tabular discount.

## NOTES TO FINANCIAL STATEMENTS

Liabilities for Group A&H Long-Term Disability claims are calculated on a tabular basis using the 1987 Commissioners Group Disability Table with a 4.2% discount rate. The table is the NAIC minimum valuation standard. The discount rate is lower (more conservative) than the minimum valuation standard permits, but uses the maximum 4.2% discount rate that is prescribed for the Company.

<b>Tabular Discount</b>	
Included in Schedule P, Part 1	
<u>Line of Business</u>	<u>Case and IBNR*</u> (In thousands)
Workers' Compensation	\$ 73,673
Other (Including Credit, A&H)	3,972
<b>Total Tabular Discount</b>	<b>77,645</b>
<b>Non-Tabular Discount</b>	
<u>Line of Business</u>	
Homeowners/Farmowners	39
Private Passenger Auto Liability/Medical	654
Commercial Auto/Truck Liability/Medical	9,426
Workers' Compensation	168,192
Commercial Multi Peril	7,668
Medical Malpractice - occurrence	12
Special Liability	348
Other Liability - occurrence	16,533
Other Liability - claims-made	5,753
Special Property	1
Fidelity/Surety	1,296
Reinsurance Nonproportional Assumed Liability	1,577
Products Liability - occurrence	11,052
<b>Subtotal Non-Tabular Discount</b>	<b>222,551</b>
Prescribed Practice Discount	(25,365)
<b>Total Non-Tabular Discount</b>	<b>197,186</b>
<b>Grand Total</b>	<b>\$ 274,831</b>

\*Includes loss and LAE.

## NOTES TO FINANCIAL STATEMENTS

### 33. ASBESTOS/ENVIRONMENTAL RESERVES

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

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

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

<b>Direct</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Beginning reserves	\$ 50,745,520	\$ 48,287,963	\$ 37,272,724	\$ 32,210,485	\$ 22,144,633
Incurred losses and LAE	8,171,540	1,483,834	1,929,966	4,877,264	(1,335,984)
Calendar year payments for					
Losses and LAE	(10,629,097)	(12,499,073)	(6,992,205)	(14,943,116)	(3,853,792)
Ending asbestos related Loss reserves	\$ 48,287,963	\$ 37,272,724	\$ 32,210,485	\$ 22,144,633	\$ 16,954,857

<b>Assumed Reinsurance</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Beginning reserves	\$234,969,103	\$182,815,368	\$137,087,779	\$121,181,018	\$ 98,032,972
Incurred losses and LAE	(2,675,434)	(3,224,875)	12,799,378	2,874,472	14,586,663
Calendar year payments for					
Losses and LAE	(49,478,301)	(42,502,714)	(28,706,139)	(26,022,518)	(22,798,692)
Ending asbestos related Loss reserves	\$182,815,368	\$137,087,779	\$121,181,018	\$ 98,032,972	\$ 89,820,943

<b>Net of Reinsurance</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Beginning reserves	\$196,341,222	\$163,721,514	\$121,465,801	\$106,874,774	\$ 88,720,698
Incurred losses and LAE	5,224,196	(10,166,032)	9,145,074	8,863,763	4,796,985
Calendar year payments for					
Losses and LAE	(37,843,904)	(32,089,681)	(23,736,101)	(27,017,839)	(4,690,994)
Ending asbestos related Loss reserves	\$163,721,514	\$121,465,801	\$106,874,774	\$ 88,720,698	\$ 88,826,689

The total asbestos related loss reserves at December 31, 2011 include IBNR reserves in the amount of \$1,993,477 direct, \$38,730,249 assumed, and \$29,234,841 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, 2011 also include LAE in the amount of \$9,038,479 direct, \$20,882,677 assumed, and \$27,465,999 net of reinsurance.

## NOTES TO FINANCIAL STATEMENTS

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

<b>Direct</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Beginning reserves	\$ 10,696,560	\$ 5,917,205	\$ 7,414,481	\$ 11,225,879	\$ 6,376,285
Incurred losses and LAE	(1,724,558)	3,901,109	7,606,903	352,415	1,656,965
Calendar year payments for					
Losses and LAE	(3,054,797)	(2,403,833)	(3,795,505)	(5,202,009)	(1,224,705)
Ending environmental related Loss Reserves	\$ 5,917,205	\$ 7,414,481	\$ 11,225,879	\$ 6,376,285	\$ 6,808,545
<b>Assumed Reinsurance</b>					
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Beginning reserves	\$ 66,025,514	\$ 37,919,893	\$ 23,966,682	\$ 16,364,211	\$ 11,879,250
Incurred losses and LAE	(7,552,263)	(12,087,524)	(2,823,542)	(685,556)	(448,108)
Calendar year payments for					
Losses and LAE	(20,553,358)	(1,865,687)	(4,778,929)	(3,799,405)	(1,895,671)
Ending environmental related Loss Reserves	\$ 37,919,893	\$ 23,966,682	\$ 16,364,211	\$ 11,879,250	\$ 9,535,471
<b>Net of Reinsurance</b>					
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Beginning reserves	\$ 63,373,890	\$ 38,567,291	\$ 26,969,125	\$ 23,938,186	\$ 14,939,103
Incurred losses and LAE	(9,596,825)	(10,072,456)	5,118,458	(3,537,876)	3,901,638
Calendar year payments for					
Losses and LAE	(15,209,774)	(1,525,710)	(8,149,397)	(5,461,207)	(2,978,300)
Ending environmental related Loss Reserves	\$ 38,567,291	\$ 26,969,125	\$ 23,938,186	\$ 14,939,103	\$ 15,862,441

The total environmental related loss reserves at December 31, 2011 include IBNR reserves in the amount of \$2,027,366 direct, \$3,147,866 assumed, and \$4,940,115 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, 2011 also include LAE in the amount of \$2,413,739 direct, \$4,800,185 assumed, and \$7,150,873 net of reinsurance.

#### 34. SUBSCRIBER SAVINGS ACCOUNTS

None.

#### 35. MULTIPLE PERIL CROP INSURANCE

None.

#### 36. FINANCIAL GUARANTY INSURANCE

None.

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

### GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? ..... Yes [ X ] No [ ]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? ..... Yes [ X ] No [ ] NA [ ]
- 1.3 State Regulating? ..... Illinois.....
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? ..... Yes [ ] No [ X ]
- 2.2 If yes, date of change: .....
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. ....12/31/2010
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. ....12/31/2005
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). ....07/11/2007
- 3.4 By what department or departments? Illinois.....
- 3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? ..... Yes [ X ] No [ ] NA [ ]
- 3.6 Have all of the recommendations within the latest financial examination report been complied with? ..... Yes [ X ] No [ ] NA [ ]
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
  - 4.11 sales of new business? ..... Yes [ ] No [ X ]
  - 4.12 renewals? ..... Yes [ ] No [ X ]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
  - 4.21 sales of new business? ..... Yes [ ] No [ X ]
  - 4.22 renewals? ..... Yes [ ] No [ X ]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? ..... Yes [ ] No [ X ]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? ..... Yes [ ] No [ X ]
- 6.2 If yes, give full information .....
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? ..... Yes [ ] No [ X ]
- 7.2 If yes,
  - 7.21 State the percentage of foreign control .....
  - 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney - in - fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney - in - fact).

1 Nationality	2 Type of Entity

GENERAL INTERROGATORIES

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? ..... Yes [ ] No [ X ]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? ..... Yes [ ] No [ X ]
- 8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

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

- 9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
KPMG, LLP, Peat Marwick Plaza, 303 East Wacker Drive, Chicago, Illinois, 60601-9973
- 10.1 Has the insurer been granted any exemptions to the prohibited non-audit services provided by the certified independent public accountant requirements as allowed in Section 7H of the Annual Financial Reporting Model Regulation (Model Audit Rule), or substantially similar state law or regulation? ..... Yes [ ] No [ X ]
- 10.2 If the response to 10.1 is yes, provide information related to this exemption:
- 10.3 Has the insurer been granted any exemptions related to the other requirements of the Annual Financial Reporting Model Regulation as allowed for in Section 17A of the Model Regulation, or substantially similar state law or regulation? ..... Yes [ ] No [ X ]
- 10.4 If the response to 10.3 is yes, provide information related to this exemption:
- 10.5 Has the reporting entity established an Audit Committee in compliance with the domiciliary state insurance laws? ..... Yes [ X ] No [ ] NA [ ]
- 10.6 If the response to 10.5 is no or n/a, please explain
- 11. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification? .....  
Chris E. Nelson, FCAS, MAAA, Chief Actuary of the reporting entity, and associated with Nelson Actuarial, 1997 Dellwood Drive, NW, Atlanta, GA 30309
- 12.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? ..... Yes [ X ] No [ ]  
LGA-17, Inc. & Delta  
Wetlands Joint Venture....  
12.11 Name of real estate holding company .....  
12.12 Number of parcels involved ..... 2  
12.13 Total book/adjusted carrying value ..... \$ ..... 15,313,713
- 12.2 If yes, provide explanation
- 13. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 13.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?
- 13.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? ..... Yes [ ] No [ ]
- 13.3 Have there been any changes made to any of the trust indentures during the year? ..... Yes [ ] No [ ]
- 13.4 If answer to (13.3) is yes, has the domiciliary or entry state approved the changes? ..... Yes [ ] No [ ] NA [ ]
- 14.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? ..... Yes [ X ] No [ ]  
  - a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
  - b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
  - c. Compliance with applicable governmental laws, rules and regulations;
  - d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
  - e. Accountability for adherence to the code.
- 14.11 If the response to 14.1 is no, please explain:
- 14.2 Has the code of ethics for senior managers been amended? ..... Yes [ ] No [ X ]
- 14.21 If the response to 14.2 is yes, provide information related to amendment(s).
- 14.3 Have any provisions of the code of ethics been waived for any of the specified officers? ..... Yes [ ] No [ X ]
- 14.31 If the response to 14.3 is yes, provide the nature of any waiver(s).

# GENERAL INTERROGATORIES

## BOARD OF DIRECTORS

- 15.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance with a NAIC rating of 3 or below?..... Yes [ X ] No [ ]
- 15.2 If the response to 15.1 is yes, indicate the American Bankers Association (ABA) Routing Number and the name of the issuing or confirming bank of the Letter of Credit and describe the circumstances in which the Letter of Credit is triggered.

1 American Bankers Association (ABA) Routing Number	2 Issuing or Confirming Bank Name	3 Circumstances That Can Trigger the Letter of Credit	4 Amount
.....122240751.....	First National Bank of Southern CA.....	Failure to pay or refusal to replace.....	.....15,000
.....031176110.....	ING Direct.....	Failure to pay or refusal to replace.....	.....42,000
.....072471887.....	The Northern Trust Company.....	Failure to pay or refusal to replace.....	.....147,000
.....026009580.....	The Royal Bank of Scotland N.V.....	Failure to pay or refusal to replace.....	.....1,078,000
.....031913438.....	Univest Bank and Trust Co.....	Failure to pay or refusal to replace.....	.....400,000

16. 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 [ ]
17. 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 [ ]
18. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person?..... Yes [ X ] No [ ]

## FINANCIAL

19. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? ..... Yes [ ] No [ X ]
- 20.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 20.11 To directors or other officers .. \$.....0
  - 20.12 To stockholders not officers ... \$.....0
  - 20.13 Trustees, supreme or grand (Fraternal only) ..... \$.....0
- 20.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 20.21 To directors or other officers ... \$.....0
  - 20.22 To stockholders not officers ... \$.....0
  - 20.23 Trustees, supreme or grand (Fraternal only) ..... \$.....0
- 21.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? ..... Yes [ ] No [ X ]
- 21.2 If yes, state the amount thereof at December 31 of the current year:
- 21.21 Rented from others ..... \$.....
  - 21.22 Borrowed from others ..... \$.....
  - 21.23 Leased from others ..... \$.....
  - 21.24 Other ..... \$.....
- 22.1 Does this statement include payments for assessments as described in the *Annual Statement Instructions* other than guaranty fund or guaranty association assessments? ..... Yes [ ] No [ X ]
- 22.2 If answer is yes:
- 22.21 Amount paid as losses or risk adjustment ..... \$.....
  - 22.22 Amount paid as expenses ..... \$.....
  - 22.23 Other amounts paid ..... \$.....
- 23.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? ..... Yes [ X ] No [ ]
- 23.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: ..... \$.....0

## INVESTMENT

- 24.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 24.3)..... Yes [ X ] No [ ]
- 24.2 If no, give full and complete information, relating thereto
- 24.3 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 17 where this information is also provided)
- Not applicable
- 24.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions?..... Yes [ ] No [ ] NA [ X ]
- 24.5 If answer to 24.4 is yes, report amount of collateral for conforming programs. .... \$.....
- 24.6 If answer to 24.4 is no, report amount of collateral for other programs. .... \$.....
- 24.7 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract?..... Yes [ ] No [ ] NA [ X ]
- 24.8 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%?..... Yes [ ] No [ ] NA [ X ]
- 24.9 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending?..... Yes [ ] No [ ] NA [ X ]

GENERAL INTERROGATORIES

- 25.1 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 21.1 and 24.3) ..... Yes [ X ] No [ ]
- 25.2 If yes, state the amount thereof at December 31 of the current year:
- 25.21 Subject to repurchase agreements ..... \$
  - 25.22 Subject to reverse repurchase agreements..... \$
  - 25.23 Subject to dollar repurchase agreements..... \$
  - 25.24 Subject to reverse dollar repurchase agreements..... \$
  - 25.25 Pledged as collateral..... \$ 170,981,711
  - 25.26 Placed under option agreements..... \$
  - 25.27 Letter stock or securities restricted as to sale..... \$
  - 25.28 On deposit with state or other regulatory body..... \$ 228,378,879
  - 25.29 Other..... \$

25.3 For category (25.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

28. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III – General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping agreements of the NAIC *Financial Condition Examiners Handbook*? ..... Yes [ X ] No [ ]

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

1 Name of Custodian(s)	2 Custodian's Address
BNY Mellon Trust Company of Illinois.....	2 North LaSalle St., Suite 1020, Chicago, IL 60602.

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

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

- 28.03 Have there been any changes, including name changes, in the custodian(s) identified in 28.01 during the current year? ..... Yes [ ] No [ X ]
- 28.04 If yes, give full and complete information relating thereto:

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

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

1 Central Registration Depository Number(s)	2 Name	3 Address
109875.....	Asset Allocation & Management Company, L.L.C.....	30 North LaSalle St., 35th Floor, Chicago, IL 60602.....



## GENERAL INTERROGATORIES

29.1 Does the reporting entity have any diversified mutual funds reported in Schedule D - Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])?..... Yes [ ] No [ X ]

29.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
.....	.....	.....
.....	.....	.....
29.2999 TOTAL		0

29.3 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
.....	.....	.....	.....
.....	.....	.....	.....

30. 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 (+)
30.1 Bonds.....	665,315,371	661,674,031	(3,641,340)
30.2 Preferred Stocks.....	0		0
30.3 Totals	665,315,371	661,674,031	(3,641,340)

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

See Footnote 20.....

31.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D?..... Yes [ X ] No [ ]

31.2 If the answer to 31.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source?..... Yes [ ] No [ X ]

31.3 If the answer to 31.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:

The company's engaged portfolio manager determines reliable pricing sources for the Company's investments, including the four bonds priced by a broker.....

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

32.2 If no, list exceptions:

**GENERAL INTERROGATORIES**

**OTHER**

33.1 Amount of payments to Trade associations, service organizations and statistical or rating bureaus, if any?.....\$ .....1,364

33.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Mississippi State Rating Bureau.....	1,000
.....	
.....	

34.1 Amount of payments for legal expenses, if any?.....\$ .....3,028,623

34.2 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
Butler Ruben Saltarelli & Boyd LLP.....	1,027,526
Sidley Austin LLP.....	868,984
.....	

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

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

1 Name	2 Amount Paid
.....	
.....	

**GENERAL INTERROGATORIES**

(continued)

**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? ..... Yes [ ] No [ X ]
- 1.2 If yes, indicate premium earned on U.S. business only. .... \$ .....0
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? ..... \$ .....

1.31 Reason for excluding

- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. .... \$ .....
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance. .... \$ .....0

1.6 Individual policies:

Most current three years:

- 1.61 Total premium earned ..... \$ .....0
- 1.62 Total incurred claims ..... \$ .....0
- 1.63 Number of covered lives ..... 0

All years prior to most current three years:

- 1.64 Total premium earned ..... \$ .....0
- 1.65 Total incurred claims ..... \$ .....0
- 1.66 Number of covered lives ..... 0

1.7 Group policies:

Most current three years:

- 1.71 Total premium earned ..... \$ .....0
- 1.72 Total incurred claims ..... \$ .....0
- 1.73 Number of covered lives ..... 0

All years prior to most current three years:

- 1.74 Total premium earned ..... \$ .....0
- 1.75 Total incurred claims ..... \$ .....0
- 1.76 Number of covered lives ..... 0

2. Health Test:

		1		2
		Current Year		Prior Year
2.1	Premium Numerator	\$ .....0	\$	.....0
2.2	Premium Denominator	\$ .....1,106,629	\$	.....1,174,429
2.3	Premium Ratio (2.1/2.2)	.....0.000		.....0.000
2.4	Reserve Numerator	\$ .....21,753,885	\$	.....25,270,503
2.5	Reserve Denominator	\$ .....687,731,690	\$	.....700,038,751
2.6	Reserve Ratio (2.4/2.5)	.....0.032		.....0.036

- 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 [ X ]

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 2011 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 2011 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 arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, 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 31 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:  
 (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or  
 (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?..... Yes [ ] No [ X ]
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.
- 9.6 The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:  
 (a) The entity does not utilize reinsurance; or, Yes [ ] No [ X ]  
 (b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or Yes [ ] No [ X ]  
 (c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement. Yes [ ] No [ X ]
10. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? Yes [ X ] No [ ] N/A [ ]

**GENERAL INTERROGATORIES**  
**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

- 11.1 Has the reporting entity guaranteed policies issued by any other entity and now in force:..... Yes  No
- 11.2 If yes, give full information  
 The Company has guaranteed the obligations under policies issued on and after January 1, 2002 by its former Belgium subsidiary, Kemper S.A. (Societe Anonyme) and the obligations of its Australian subsidiary, Long Grove Insurance Company Limited.....
- 12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 15.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- 12.11 Unpaid losses..... \$ 4,700,895
- 12.12 Unpaid underwriting expenses (including loss adjustment expenses)..... \$ 752,144
- 12.2 Of the amount on Line 15.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds?..... \$ 3,837,152
- 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..... \$ 129,928,363
- 12.62 Collateral and other funds..... \$ 65,083,245
- 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 the 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.....	\$ .....	\$ .....	\$ .....	\$ .....	\$ .....
16.12 Products.....	\$ .....	\$ .....	\$ .....	\$ .....	\$ .....
16.13 Automobile.....	\$ .....	\$ .....	\$ .....	\$ .....	\$ .....
16.14 Other*.....	\$ .....	\$ .....	\$ .....	\$ .....	\$ .....

\* Disclose type of coverage:

**GENERAL INTERROGATORIES**  
**PART 2 - PROPERTY & CASUALTY INTERROGATORIES**

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

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

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

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

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

18.1 Do you act as a custodian for health savings accounts?..... Yes [ ] No [ X ]

18.2 If yes, please provide the amount of custodial funds held as of the reporting date..... \$ .....

18.3 Do you act as an administrator for health savings accounts?..... Yes [ ] No [ X ]

18.4 If yes, please provide the balance of the funds administered as of the reporting date..... \$ .....

**ANNUAL STATEMENT FOR THE YEAR 2011 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 2011	2 2010	3 2009	4 2008	5 2007
<b>Gross Premiums Written</b> (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	3,777,442	1,948,332	2,877,270	(1,068,106)	793,950
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	(399,777)	19,340	16,921	114,977	(253,533)
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	605,672	(17,676,970)	(334,618)	192,185	(723,878)
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	919,581	276,231	1,449,044	2,477,670	2,923,905
5. Nonproportional reinsurance lines (Lines 31, 32 & 33)	(3,695,883)	290,221	475,110	866,564	117,587
6. Total (Line 35)	1,207,035	(15,142,846)	4,483,727	2,583,290	2,858,031
<b>Net Premiums Written</b> (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	160,507	(121,204)	2,187,780	(885,261)	6,374,690
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	4,218	(24,263)	51,665	1,182	293,488
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	(4,351)	10,226	1,498,203	591,268	(193,320)
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34)	867,967	231,869	344,217	6,385,876	3,198,013
11. Nonproportional reinsurance lines (Lines 31, 32 & 33)	0	0	0	12,531	346
12. Total (Line 35)	1,028,341	96,628	4,081,865	6,105,596	9,673,217
<b>Statement of Income</b> (Page 4)					
13. Net underwriting gain (loss) (Line 8)	(66,018,312)	(39,828,726)	(169,526,121)	(153,907,140)	(139,170,703)
14. Net investment gain (loss) (Line 11)	26,543,449	31,213,076	47,929,992	59,475,722	64,760,335
15. Total other income (Line 15)	23,430,966	14,891,788	12,537,755	(983,790)	8,573,488
16. Dividends to policyholders (Line 17)	83,258	(1,290,894)	1,964,927	(5,727,457)	5,082,057
17. Federal and foreign income taxes incurred (Line 19)	(62,146)	(475,145)	(600,462)	(10,003,154)	(3,032,855)
18. Net income (Line 20)	(16,065,009)	8,042,177	(110,422,839)	(79,684,597)	(67,886,082)
<b>Balance Sheet Lines</b> (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 26, Col. 3)	856,565,862	900,555,180	1,124,027,285	1,407,872,250	1,684,247,514
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 15.1)	(1,813,383)	(3,050,071)	(707,981)	3,923,601	7,243,968
20.2 Deferred and not yet due (Line 15.2)	3,325,493	4,647,902	8,665,035	11,054,085	21,907,984
20.3 Accrued retrospective premiums (Line 15.3)	5,291,451	6,970,533	9,741,523	17,251,970	16,881,174
21. Total liabilities excluding protected cell business (Page 3, Line 26)	825,434,104	865,690,529	1,115,904,007	1,294,700,035	1,533,583,128
22. Losses (Page 3, Line 1)	495,279,683	507,745,337	677,228,257	819,591,888	908,734,516
23. Loss adjustment expenses (Page 3, Line 3)	177,054,887	179,014,511	213,253,103	220,807,031	328,662,125
24. Unearned premiums (Page 3, Line 9)	1,412,932	1,491,220	2,569,021	3,663,958	5,405,172
25. Capital paid up (Page 3, Lines 30 & 31)	0	0	0	0	0
26. Surplus as regards policyholders (Page 3, Line 37)	31,131,758	34,864,651	8,123,278	113,172,215	150,664,386
<b>Cash Flow</b> (Page 5)					
27. Net cash from operations (Line 11)	(571,317)	(174,102,266)	(252,867,520)	(218,098,398)	(295,823,118)
<b>Risk-Based Capital Analysis</b>					
28. Total adjusted capital	31,131,758	34,864,651	8,123,278	113,172,215	150,664,386
29. Authorized control level risk-based capital	106,119,841	83,650,395	124,770,172	133,789,460	165,333,453
<b>Percentage Distribution of Cash, Cash Equivalents and Invested Assets</b> (Page 2, Col. 3)(Item divided by Page 2, Line 12, Col. 3) x 100.0					
30. Bonds (Line 1)	77.6	83.9	86.5	86.3	83.6
31. Stocks (Lines 2.1 & 2.2)	8.0	8.2	6.5	5.9	4.6
32. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.0	0.0	0.0	0.0	0.0
33. Real estate (Lines 4.1, 4.2 & 4.3)	0.0	0.0	0.0	0.0	0.0
34. Cash, cash equivalents and short-term investments (Line 5)	12.7	6.1	6.4	7.3	11.4
35. Contract loans (Line 6)	0.0	0.0	0.0	0.0	0.0
36. Derivatives (Line 7)	0.0	0.0	XXX	XXX	XXX
37. Other invested assets (Line 8)	1.8	1.8	0.6	0.5	0.5
38. Receivables for securities (Line 9)	0.0	0.1	0.0	0.0	0.0
39. Securities lending reinvested collateral assets (Line 10)	0.0	0.0	XXX	XXX	XXX
40. Aggregate write-ins for invested assets (Line 11)	0.0	0.0	0.0	0.0	0.0
41. Cash, cash equivalents and invested assets (Line 12)	100.0	100.0	100.0	100.0	100.0
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
42. Affiliated bonds, (Sch. D, Summary, Line 12, Col. 1)	0	0	0	0	0
43. Affiliated preferred stocks (Sch. D, Summary, Line 18, Col. 1)	0	0	0	0	0
44. Affiliated common stocks (Sch. D, Summary, Line 24, Col. 1)	58,576,409	60,439,779	59,602,259	68,938,419	59,677,331
45. Affiliated short-term investments (subtotals included in Schedule DA Verification, Col. 5, Line 10)	0	0	0	0	0
46. Affiliated mortgage loans on real estate	0	0	0	0	0
47. All other affiliated	0	0	5,315,221	5,315,221	5,315,221
48. Total of above Lines 42 to 47	58,576,409	60,439,779	64,917,480	74,253,640	64,992,552
49. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 48 above divided by Page 3, Col. 1, Line 37 x 100.0)	188.2	173.4	799.2	65.6	43.1

**ANNUAL STATEMENT FOR THE YEAR 2011 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY**

**FIVE-YEAR HISTORICAL DATA**

(Continued)

	1 2011	2 2010	3 2009	4 2008	5 2007
<b>Capital and Surplus Accounts (Page 4)</b>					
50. Net unrealized capital gains (losses) (Line 24) .....	(1,382,169)	9,318,654	(5,650,732)	11,586,654	(3,031,350)
51. Dividends to stockholders (Line 35) .....	0	0	0	0	0
52. Change in surplus as regards policyholders for the year (Line 38) .....	(3,732,893)	26,741,373	(105,048,937)	(37,492,171)	(22,928,226)
<b>Gross Losses Paid (Page 9, Part 2, Cols. 1 &amp; 2)</b>					
53. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4) .....	134,599,228	283,196,871	286,483,185	442,878,845	502,026,889
54. Property lines (Lines 1, 2, 9, 12, 21 & 26) .....	(29,597)	67,828	(77,925)	224,008	1,584,749
55. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27) .....	4,878,224	9,638,827	10,388,581	18,277,275	41,462,817
56. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34) .....	2,129,619	12,400,587	11,930,878	6,803,013	686,154
57. Nonproportional reinsurance lines (Lines 31, 32 & 33) .....	11,294,452	35,216,248	14,944,262	18,318,129	40,341,048
58. Total (Line 35) .....	152,871,926	340,520,361	323,668,981	486,501,270	586,101,657
<b>Net Losses Paid (Page 9, Part 2, Col. 4)</b>					
59. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 17.3, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4) .....	(16,683,549)	126,070,197	147,649,212	205,751,121	247,702,430
60. Property lines (Lines 1, 2, 9, 12, 21 & 26) .....	(195,972)	(111,755)	(54,881)	(230,279)	260,505
61. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27) .....	2,689,562	4,127,421	5,359,567	17,365,340	32,800,011
62. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34) .....	3,426,481	11,677,093	9,773,346	(30,091,462)	5,633,100
63. Nonproportional reinsurance lines (Lines 31, 32 & 33) .....	11,844,352	12,052,691	12,336,215	12,019,298	28,989,956
64. Total (Line 35) .....	1,080,874	153,815,647	175,063,459	204,814,018	315,386,002
<b>Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0</b>					
65. Premiums earned (Line 1) .....	100.0	100.0	100.0	100.0	100.0
66. Losses incurred (Line 2) .....	(1,028.8)	(1,334.0)	631.7	1,474.1	997.6
67. Loss expenses incurred (Line 3) .....	4,169.2	1,437.8	1,111.3	(174.7)	(306.1)
68. Other underwriting expenses incurred (Line 4) .....	2,942.4	3,399.3	1,656.5	787.5	422.1
69. Net underwriting gain (loss) (Line 8) .....	(5,965.7)	(3,391.3)	(3,274.7)	(1,961.4)	(1,013.5)
<b>Other Percentages</b>					
70. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 35 x 100.0) .....	869.5	25,761.2	1,762.3	995.4	510.5
71. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0) .....	3,140.4	103.8	1,742.9	1,299.4	691.5
72. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 35 divided by Page 3, Line 37, Col. 1 x 100.0) .....	3.3	0.3	50.2	5.4	6.4
<b>One Year Loss Development (000 omitted)</b>					
73. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11) .....	105,203	20,395	43,429	23,037	(11,693)
74. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 73 above divided by Page 4, Line 21, Col. 1 x 100.0) .....	301.7	251.1	38.4	15.3	(6.7)
<b>Two Year Loss Development (000 omitted)</b>					
75. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2 - Summary, Line 12, Col. 12) .....	32,238	64,694	67,052	11,396	16,611
76. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 75 above divided by Page 4, Line 21, Col. 2 x 100.0) .....	396.9	57.2	44.5	6.6	9.9

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? ..... Yes [ ] No [ ]

If no, please explain: .....



ANNUAL STATEMENT FOR THE YEAR 2011 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	122,289	106,078	32,192	3,682	6,467	706	3,575	50,481	XXX
2. 2002	4,528,662	2,631,131	1,897,531	1,933,717	844,046	261,577	86,463	242,003	100,361	85,944	1,406,428	XXX
3. 2003	2,597,722	2,164,948	432,774	838,449	605,423	110,984	42,523	77,171	18,631	46,887	360,027	XXX
4. 2004	262,845	203,034	59,811	146,184	74,127	17,115	5,065	23,167	3,244	3,925	104,030	XXX
5. 2005	63,843	42,544	21,299	28,071	11,805	3,642	994	13,114	1,476	1,044	30,553	XXX
6. 2006	24,866	5,621	19,245	7,507	458	1,533	492	92	26	774	8,156	XXX
7. 2007	9,230	(4,501)	13,731	1,986	11	871	477	75	15	61	2,429	XXX
8. 2008	5,117	(2,729)	7,846	1,539	51	5,368	11	68	25	790	6,888	XXX
9. 2009	6,180	1,002	5,178	1,455	460	380	46	71	9	52	1,391	XXX
10. 2010	(13,837)	(15,013)	1,176	1,273	137	341	135	65	9	0	1,399	XXX
11. 2011	1,733	626	1,107	252	0	36	0	5	0	0	293	XXX
12. Totals	XXX	XXX	XXX	3,082,722	1,642,596	434,039	139,888	362,299	124,501	143,052	1,972,075	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 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded					
1. ....	812,973	174,683	122,288	101,617	56,402	7,298	109,101	26,809	23,088	1,881	2,599	811,564	XXX
2. ....	79,780	27,475	37,894	36,086	4,589	1,647	21,441	8,820	2,870	234	1,214	72,312	XXX
3. ....	53,196	18,161	21,809	18,449	2,287	908	9,505	4,133	1,546	119	2,412	46,573	XXX
4. ....	3,104	1,254	1,612	813	263	71	595	242	117	7	33	3,304	XXX
5. ....	206	62	313	75	271	18	193	27	9	3	28	807	XXX
6. ....	419	0	452	94	23	0	107	24	5	2	46	886	XXX
7. ....	3,312	395	515	123	514	66	206	46	15	3	8	3,929	XXX
8. ....	1,536	0	893	109	101	0	804	27	7	2	150	3,203	XXX
9. ....	259	0	445	113	91	0	144	32	6	3	38	798	XXX
10. ....	12,895	10	(712)	116	84	0	356	78	4	2	75	12,421	XXX
11. ....	1,307	0	(103,658)	(21,408)	64	0	146	34	(5,964)	(452)	75	(86,280)	XXX
12. Totals	968,987	222,040	81,851	136,187	64,689	10,008	142,598	40,272	21,702	1,803	6,678	869,517	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	194,260	357	XXX	464,701	152,246
2. ....	2,583,871	1,105,132	1,478,740	57.1	42.0	77.9	16,116	79		37,997	18,120
3. ....	1,114,947	708,347	406,599	42.9	32.7	94.0	9,671	16		28,724	8,162
4. ....	192,157	84,823	107,334	73.1	41.8	179.5	409	0		2,240	655
5. ....	45,819	14,459	31,360	71.8	34.0	147.2	74	0		308	425
6. ....	10,137	1,095	9,042	40.8	19.5	47.0	99	1		678	108
7. ....	7,494	1,136	6,358	81.2	(25.2)	46.3	318	0		2,991	620
8. ....	10,316	225	10,091	201.6	(8.2)	128.6	208	0		2,112	883
9. ....	2,852	663	2,189	46.1	66.1	42.3	60	1		531	206
10. ....	14,306	487	13,820	(103.4)	(3.2)	1,175.1	805	0		11,252	364
11. ....	(107,813)	(21,826)	(85,987)	(6,221.2)	(3,486.5)	(7,767.6)	(24,686)	(602)		(56,257)	(4,735)
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	197,334	(148)	XXX	495,277	177,054

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 2011 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
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	One Year	Two Year
1. Prior	4,094,403	4,231,708	4,161,117	4,020,922	4,046,064	4,042,713	4,051,492	4,071,074	4,118,240	4,127,742	9,502	56,668
2. 2002	1,250,837	1,222,205	1,179,190	1,238,222	1,275,047	1,308,020	1,343,473	1,358,704	1,339,836	1,337,354	(2,482)	(21,350)
3. 2003	XXX	470,626	365,688	416,310	369,719	368,367	342,246	356,206	349,830	347,990	(1,840)	(8,216)
4. 2004	XXX	XXX	86,184	98,926	94,115	78,965	87,808	88,068	88,374	87,417	(957)	(651)
5. 2005	XXX	XXX	XXX	30,399	52,603	23,325	23,700	21,387	19,767	19,715	(52)	(1,672)
6. 2006	XXX	XXX	XXX	XXX	11,276	15,741	11,501	9,823	8,868	8,973	105	(850)
7. 2007	XXX	XXX	XXX	XXX	XXX	4,461	4,409	3,382	5,954	6,286	332	2,904
8. 2008	XXX	XXX	XXX	XXX	XXX	XXX	4,308	3,722	2,762	10,043	7,281	6,321
9. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,039	2,169	2,123	(46)	(916)
10. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(79,599)	13,761	93,360	XXX
11. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(80,479)	XXX	XXX
<b>12. Totals</b>											105,203	32,238

**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
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		
1. Prior	000	713,993	1,481,847	2,016,897	2,362,499	2,655,071	2,879,883	3,068,821	3,219,385	3,264,106	XXX	XXX
2. 2002	459,740	553,991	781,826	950,162	1,091,115	1,165,877	1,227,873	1,251,754	1,275,270	1,264,785	XXX	XXX
3. 2003	XXX	(103,954)	66,876	199,618	251,705	294,877	276,234	289,644	302,234	301,487	XXX	XXX
4. 2004	XXX	XXX	33,452	47,607	56,189	60,271	74,357	77,973	82,793	84,107	XXX	XXX
5. 2005	XXX	XXX	XXX	14,594	17,354	18,162	18,739	18,729	18,828	18,914	XXX	XXX
6. 2006	XXX	XXX	XXX	XXX	7,161	8,781	8,496	7,412	7,808	8,090	XXX	XXX
7. 2007	XXX	XXX	XXX	XXX	XXX	1,013	1,178	1,701	2,311	2,369	XXX	XXX
8. 2008	XXX	XXX	XXX	XXX	XXX	XXX	1,355	1,524	2,336	6,845	XXX	XXX
9. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	646	1,213	1,329	XXX	XXX
10. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	376	1,342	XXX	XXX
11. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	288	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
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Prior	1,440,619	928,548	762,547	420,042	386,222	264,396	205,814	153,315	174,527	176,242
2. 2002	482,914	292,680	142,392	120,914	55,856	34,603	30,126	36,346	17,512	17,322
3. 2003	XXX	406,590	140,924	99,582	35,614	20,493	17,524	29,308	13,113	10,089
4. 2004	XXX	XXX	28,464	32,956	21,972	4,236	3,351	3,294	1,731	1,268
5. 2005	XXX	XXX	XXX	13,132	31,513	3,621	3,779	2,104	613	404
6. 2006	XXX	XXX	XXX	XXX	3,358	6,204	1,179	1,056	787	441
7. 2007	XXX	XXX	XXX	XXX	XXX	2,664	2,542	596	666	552
8. 2008	XXX	XXX	XXX	XXX	XXX	XXX	2,256	814	364	1,561
9. 2009	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,732	561	444
10. 2010	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(80,010)	(550)
11. 2011	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(82,138)

ANNUAL STATEMENT FOR THE YEAR 2011 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

States, etc.	1 Active Status	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 L	3,456	3,846	(3,105)	651,861	1,131,478	4,664,713	0	0	
2. Alaska	AK L	90	90	(1,237)	443,837	1,018,017	1,448,234	0	0	
3. Arizona	AZ L	4,057	4,057	(8,907)	(1,989,591)	(1,940,344)	8,103,822	0	0	
4. Arkansas	AR L	0	11	(3,033)	240,653	745,490	1,457,404	0	0	
5. California	CA L	328,998	340,899	(165,463)	7,133,782	(1,576,097)	82,323,870	0	0	
6. Colorado	CO L	(266)	(266)	(10,607)	231,292	10,960	875,803	0	0	
7. Connecticut	CT L	8,267	8,238	(38,178)	1,364,246	763,347	3,575,668	0	0	
8. Delaware	DE L	(137)	(137)	(2,213)	402,787	435,667	3,404,092	0	0	
9. Dist. of Columbia	DC L	541	541	(416)	490,618	239,513	752,945	0	0	
10. Florida	FL N	13,718	14,318	(37,321)	1,697,467	(2,048,098)	4,614,021	0	0	
11. Georgia	GA L	27,690	32,548	(17,815)	608,343	869,585	3,845,314	0	0	
12. Hawaii	HI L	17,517	20,383	(1,344)	375,273	402,108	1,216,144	0	0	
13. Idaho	ID L	(722)	(722)	(1,345)	10,644	10,740	0	0	0	
14. Illinois	IL L	11,107	11,083	(49,715)	3,439,214	5,219,994	19,402,068	0	0	
15. Indiana	IN L	9,889	9,889	(5,433)	1,313,885	1,264,945	2,883,244	0	0	
16. Iowa	IA L	1,787	1,787	(2,345)	121,371	91,793	1,677,351	0	0	
17. Kansas	KS L	539	539	(4,508)	1,695	(162,170)	264,984	0	0	
18. Kentucky	KY L	0	0	(1,902)	1,351,745	1,639,622	10,520,068	0	0	
19. Louisiana	LA L	(1,172)	(1,172)	(2,804)	70,003	(92,841)	2,036,071	0	0	
20. Maine	ME L	501	501	(192)	15,723	(30,141)	29,786	0	0	
21. Maryland	MD L	216	1,463	(4,803)	1,237,556	(119,420)	4,386,398	0	0	
22. Massachusetts	MA L	(7,736)	(4,495)	(10,187)	1,690,406	331,046	5,657,274	0	0	
23. Michigan	MI L	40,609	42,294	(18,283)	2,259,875	(1,271,149)	8,045,876	0	0	
24. Minnesota	MN L	8,192	8,192	(9,042)	642,626	834,975	4,034,530	0	0	
25. Mississippi	MS L	(840)	(840)	(1,049)	64,344	105,840	403,710	0	0	
26. Missouri	MO L	1,915	1,911	(8,378)	490,882	318,889	1,958,184	0	0	
27. Montana	MT L	52	52	(3,540)	66,326	85,608	552,769	0	0	
28. Nebraska	NE L	(94)	(94)	(1,715)	(820,947)	(1,026,369)	1,635,691	0	0	
29. Nevada	NV L	365	365	(274)	227,310	(39,565)	927,106	0	0	
30. New Hampshire	NH L	1,800	1,797	(1,357)	216,216	585,161	1,691,778	0	0	
31. New Jersey	NJ L	29,181	34,344	(4,494)	5,502,059	6,658,985	29,169,938	0	0	
32. New Mexico	NM L	(282)	(283)	(2,800)	106,931	84,086	524,918	0	0	
33. New York	NY L	10,977	20,550	(59,045)	3,604,309	6,890,754	66,162,586	0	0	
34. No. Carolina	NC L	20,962	26,470	(7,439)	1,250,718	881,584	4,399,939	0	0	
35. No. Dakota	ND L	33	33	(27)	0	186	0	0	0	
36. Ohio	OH L	6,657	6,657	(1,560)	505,615	(756,992)	3,049,951	0	0	
37. Oklahoma	OK L	0	0	(8,181)	193,037	333,114	824,526	0	0	
38. Oregon	OR L	182	182	(13,133)	118,212	(1,185,263)	2,244,574	0	0	
39. Pennsylvania	PA L	258	261	(76,397)	923,155	255,395	6,643,840	0	0	
40. Rhode Island	RI L	34	486	(764)	710,071	(147,637)	828,899	0	0	
41. So. Carolina	SC L	(5,427)	(5,139)	(3,554)	837,161	1,068,372	7,366,746	0	0	
42. So. Dakota	SD L	20	20	(3,836)	17,928	22,557	108,660	0	0	
43. Tennessee	TN L	45,718	46,017	(8,636)	473,722	317,907	4,538,040	0	0	
44. Texas	TX L	0	172	(66,201)	2,033,652	4,144,424	41,879,013	0	0	
45. Utah	UT L	(298)	(298)	(2,088)	(65,508)	(64,765)	33,175	0	0	
46. Vermont	VT L	31	94	(1,131)	181,957	340,371	1,064,360	0	0	
47. Virginia	VA L	100	100	(7,447)	1,458,808	1,213,820	3,730,758	0	0	
48. Washington	WA L	(673)	(672)	(2,038)	154,969	(102,847)	857,060	0	0	
49. West Virginia	WV L	(34)	(34)	(33)	12,433	(1,967)	103,690	0	0	
50. Wisconsin	WI L	137,666	139,095	(29,385)	922,648	1,021,861	1,230,037	0	0	
51. Wyoming	WY L	(575)	(394)	60	24,230	14,250	130,163	0	0	
52. American Samoa	AS N	0	0	0	0	0	0	0	0	
53. Guam	GU N	0	0	0	0	0	0	0	0	
54. Puerto Rico	PR N	0	0	0	62,634	(23,189)	413,980	0	0	
55. U.S. Virgin Islands	VI N	0	0	0	0	0	0	0	0	
56. Northern Mariana Islands	MP N	0	0	0	0	0	0	0	0	
57. Canada	CN L	0	0	0	0	9,106	0	0	0	
58. Aggregate other alien	OT XXX	(10,316)	(10,316)	0	30,554	5,180,339	(46,391,537)	0	0	
59. Totals	(a) 50	704,553	754,423	(714,640)	43,108,737	33,953,035	311,302,234	0	0	
<b>DETAILS OF WRITE-INS</b>										
5801. Europe	XXX	0	0	0	30,554	(57,998)	105,807	0	0	
5802. Africa	XXX	(10,316)	(10,316)	0	0	(81)	0	0	0	
5803. Caribbean	XXX	0	0	0	0	169	0	0	0	
5898. Sum. of remaining write-ins for Line 58 from overflow page	XXX	0	0	0	0	5,238,249	(46,497,344)	0	0	
5899. Totals (Lines 5801 through 5803 + 5898) (Line 58 above)	XXX	(10,316)	(10,316)	0	30,554	5,180,339	(46,391,537)	0	0	

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

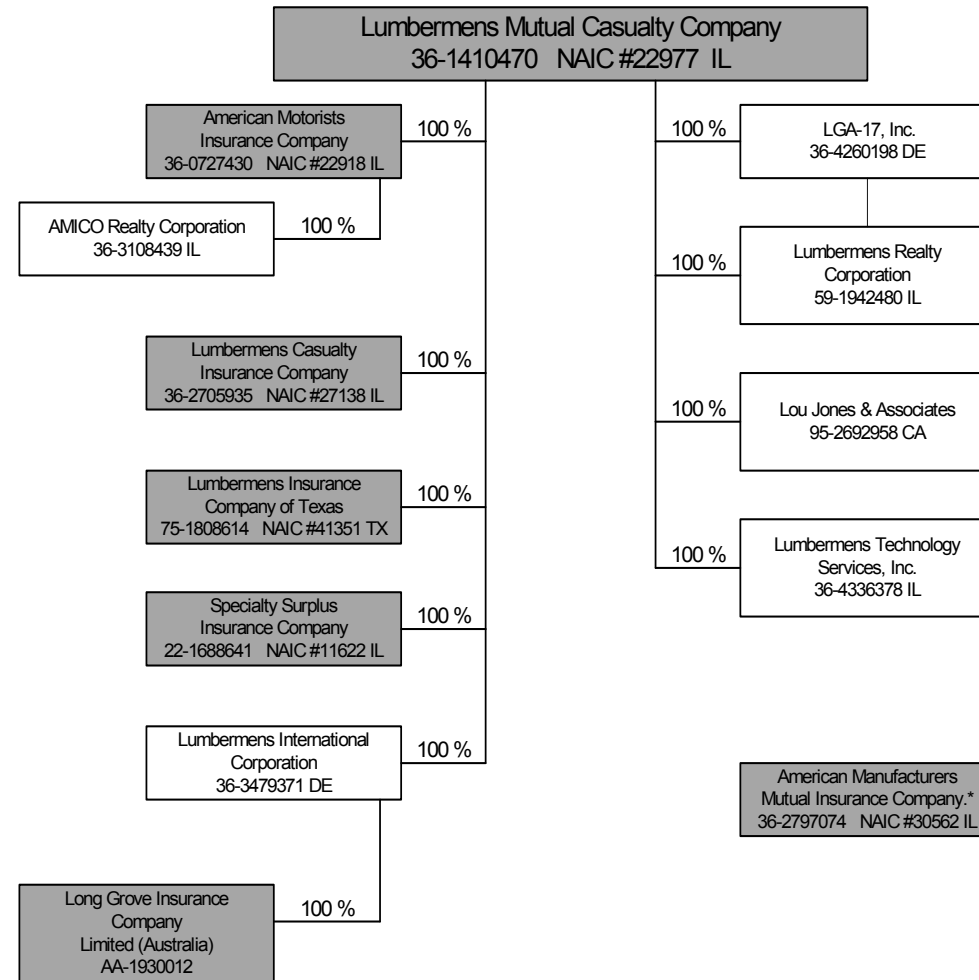
Explanation of basis of allocation of premiums by states, etc.

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

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

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

PART 1 - ORGANIZATIONAL CHART



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

Insurers are identified by shaded boxes. Percentages show common stock ownership as of 12/31/2011.

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