



ANNUAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2003
OF THE CONDITION AND AFFAIRS OF THE
LUMBERMENS MUTUAL CASUALTY COMPANY

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

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

Country of Domicile United States of America

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

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

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

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

Primary Location of Books and Records 1 Kemper Drive (Street and Number), Long Grove, IL 60049-0001 (City or Town, State and Zip Code), 847-320-3021 (Area Code) (Telephone Number)

Internet Website Address www.kemperinsurance.com

Statutory Statement Contact Dennis Andrew Wong (Name), 847-320-3021 (Area Code) (Telephone Number) (Extension), dwong@kemperinsurance.com (E-mail Address), 847-320-3818 (Fax Number)

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

OFFICERS

President Michael Albert Coutu # Secretary John Keating Conway
Treasurer Michael Patrick Sullivan #

VICE PRESIDENTS

Arthur Edmund Chandler # Gary Joseph Tully Frederick Otto Kist Jack Ellsworth Scott

DIRECTORS OR TRUSTEES

John Thomas Chain Jr. Jerome Reed Coleman James Robert Edgar
Peter Bannerman Hamilton Roberta Segal Karmel George Ralph Lewis
David Barrett Mathis John Edward Porter

State of Illinois } ss
County of Lake }

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.

Michael Albert Coutu (Acting CEO & President) President John Keating Conway Secretary Michael Patrick Sullivan Treasurer

Subscribed and sworn to before me this 23rd day of February, 2004

- 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 2003 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D).....	1,673,351,862		1,673,351,862	1,410,225,483
2. Stocks (Schedule D):				
2.1 Preferred stocks	13,388,287		13,388,287	13,346,928
2.2 Common stocks	268,718,684		268,718,684	1,295,874,636
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens	16,891,939		16,891,939	53,835,877
3.2 Other than first liens	255,711		255,711	288,092
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ encumbrances).....			0	109,523,157
4.2 Properties held for the production of income (less \$ encumbrances)			0	0
4.3 Properties held for sale (less \$ encumbrances)	40,855,789		40,855,789	279,993
5. Cash (\$244,879,231 , Schedule E, Part 1), cash equivalents (\$0 , Schedule E, Part 2) and short -term investments (\$1,625,694,500 , Schedule DA).....	1,870,573,731		1,870,573,731	1,104,545,896
6. Contract loans, (including \$premium notes)			0	0
7. Other invested assets (Schedule BA)	104,544,600	213,043	104,331,557	159,197,621
8. Receivable for securities	3,287,363		3,287,363	1,495,321
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	3,991,867,966	213,043	3,991,654,923	4,148,613,004
11. Investment income due and accrued	14,827,958		14,827,958	18,314,976
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in the course of collection	236,410,375	72,323,695	164,086,680	356,034,235
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$earned but unbilled premium).....	213,864,463	67,874,012	145,990,451	678,274,662
12.3 Accrued retrospective premium.....	164,444,348	6,911,811	157,532,537	123,216,344
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers	347,048,068		347,048,068	233,768,427
13.2 Funds held by or deposited with reinsured companies	19,418,156		19,418,156	7,556,960
13.3 Other amounts receivable under reinsurance contracts			0	0
14. Amounts receivable relating to uninsured plans			0	0
15.1 Current federal and foreign income tax recoverable and interest thereon			0	0
15.2 Net deferred tax asset.....	613,327,935	613,327,935	0	86,369,468
16. Guaranty funds receivable or on deposit	529,146		529,146	1,064,447
17. Electronic data processing equipment and software.....	2,643,386		2,643,386	3,331,986
18. Furniture and equipment, including health care delivery assets (\$)			0	0
19. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
20. Receivables from parent, subsidiaries and affiliates	20,562,031		20,562,031	0
21. Health care (\$) and other amounts receivable.....			0	0
22. Other assets nonadmitted	73,130	73,130	0	0
23. Aggregate write-ins for other than invested assets	388,387,470	22,739,169	365,648,301	414,591,327
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	6,013,404,432	783,462,795	5,229,941,637	6,071,135,836
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	0
26. Total (Lines 24 and 25)	6,013,404,432	783,462,795	5,229,941,637	6,071,135,836
DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above)	0	0	0	0
2301. Reinsurance accounted for as a deposit.....	55,190,454		55,190,454	172,155,499
2302. Advance to claims service provider.....	34,542,835		34,542,835	89,455,374
2303. Insurance recoveries related to UBIC.....	12,400,000		12,400,000	60,034,333
2398. Summary of remaining write-ins for Line 23 from overflow page	286,254,181	22,739,169	263,515,012	92,946,121
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	388,387,470	22,739,169	365,648,301	414,591,327

ANNUAL STATEMENT FOR THE YEAR 2003 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	3,094,210,933	2,730,727,148
2. Reinsurance payable on paid loss and loss adjustment expenses (Schedule F, Part 1, Column 6)	70,032,122	13,330,496
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	729,758,862	771,410,165
4. Commissions payable, contingent commissions and other similar charges	9,049,177	54,948,991
5. Other expenses (excluding taxes, licenses and fees)	140,695,970	178,143,164
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	35,849,671	50,593,239
7.1 Current federal and foreign income taxes (including \$ on realized capital gains (losses))	22,803,106	28,501,438
7.2 Net deferred tax liability	0	0
8. Borrowed money \$ and interest thereon \$	0	0
9. Unearned premiums (Part 1A, Line 37, Column 5) (after deducting unearned premiums for ceded reinsurance of \$168,446,624 and including warranty reserves of \$26,887,556)	111,595,492	269,409,686
10. Advance premiums	0	19,188,035
11. Dividends declared and unpaid:		
11.1 Stockholders	0	0
11.2 Policyholders	22,228,022	25,216,544
12. Ceded reinsurance premiums payable (net of ceding commissions)	6,844,721	1,019,386,610
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	34,078,748	122,647,943
14. Amounts withheld or retained by company for account of others	289,257,547	272,375,603
15. Remittances and items not allocated	69,487,545	120,599,908
16. Provision for reinsurance (Schedule F, Part 7)	0	84,106,200
17. Net adjustments in assets and liabilities due to foreign exchange rates	12,602,499	14,454,621
18. Drafts outstanding	0	0
19. Payable to parent, subsidiaries and affiliates	0	73,997,359
20. Payable for securities	128	66,661,743
21. Liability for amounts held under uninsured accident and health plans	0	0
22. Capital Notes \$ and interest thereon \$	0	0
23. Aggregate write-ins for liabilities	379,021,129	(541,409,100)
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	5,027,515,672	5,374,289,793
25. Protected cell liabilities	0	0
26. Total liabilities (Lines 24 and 25)	5,027,515,672	5,374,289,793
27. Aggregate write-ins for special surplus funds	0	348,899,363
28. Common capital stock	0	0
29. Preferred capital stock	0	0
30. Aggregate write-ins for other than special surplus funds	1,500,000	1,500,000
31. Surplus notes	698,355,598	698,355,598
32. Gross paid in and contributed surplus	0	0
33. Unassigned funds (surplus)	(497,429,633)	(351,908,918)
34. Less treasury stock, at cost:		
34.1 shares common (value included in Line 28 \$)	0	0
34.2 shares preferred (value included in Line 29 \$)	0	0
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 38)	202,425,965	696,846,043
36. TOTALS (Page 2, Line 26, Col. 3)	5,229,941,637	6,071,135,836
DETAILS OF WRITE-INS		
2301. Retroactive reinsurance recoverable	(11,233,487)	(1,167,602,875)
2302. Minimum pension liability	128,479,243	173,847,315
2303. Reinsurance funds held related to retroactive reinsurance	63,600,832	327,927,675
2398. Summary of remaining write-ins for Line 23 from overflow page	198,174,541	124,418,785
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	379,021,129	(541,409,100)
2701. Special surplus from retroactive reinsurance contract	0	348,899,363
2702.	0	0
2703.	0	0
2798. Summary of remaining write-ins for Line 27 from overflow page	0	0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above)	0	348,899,363
3001. Guaranty fund	1,500,000	1,500,000
3002.	0	0
3003.	0	0
3098. Summary of remaining write-ins for Line 30 from overflow page	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above)	1,500,000	1,500,000

ANNUAL STATEMENT FOR THE YEAR 2003 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

UNDERWRITING AND INVESTMENT EXHIBIT STATEMENT OF INCOME

	1 Current Year	2 Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 34, Column 4)	398,380,309	1,462,619,452
DEDUCTIONS		
2. Losses incurred (Part 2, Line 34, Column 7)	(21,660,812)	1,128,108,771
3. Loss expenses incurred (Part 3, Line 25, Column 1)	(25,391,745)	303,819,375
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	335,801,727	268,917,884
5. Aggregate write-ins for underwriting deductions	7,806,675	0
6. Total underwriting deductions (Lines 2 through 5)	296,555,845	1,700,846,030
7. Net income of protected cells	0	0
8. Net underwriting gain or (loss) (Line 1 minus Line 6 plus Line 7)	101,824,464	(238,226,578)
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	101,308,546	124,982,837
10. Net realized capital gains or (losses) (Exhibit of Capital Gains (Losses))	(490,960,882)	(239,308,458)
11. Net investment gain or (loss) (Lines 9 + 10)	(389,652,336)	(114,325,621)
OTHER INCOME		
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$568,912 amount charged off \$14,813,727)	(14,244,815)	(7,614,279)
13. Finance and service charges not included in premiums	1,102,932	7,289,291
14. Aggregate write-ins for miscellaneous income	(226,604,058)	152,469,247
15. Total other income (Lines 12 through 14)	(239,745,941)	152,144,259
16. Net income before dividends to policyholders and before federal and foreign income taxes (Lines 8 + 11 + 15)	(527,573,813)	(200,407,940)
17. Dividends to policyholders	16,972,607	55,400,810
18. Net income, after dividends to policyholders but before federal and foreign income taxes (Line 16 minus Line 17)	(544,546,420)	(255,808,750)
19. Federal and foreign income taxes incurred	(27,168,635)	(49,888,771)
20. Net income (Line 18 minus Line 19) (to Line 22)	(517,377,785)	(205,919,979)
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 38, Column 2)	696,846,043	1,266,575,405
GAINS AND (LOSSES) IN SURPLUS		
22. Net income (from Line 20)	(517,377,785)	(205,919,979)
23. Change in net unrealized capital gains or (losses)	107,581,822	(178,437,296)
24. Change in net unrealized foreign exchange capital gain (loss)	3,626,227	(3,552,895)
25. Change in net deferred income tax	119,349,325	32,093,982
26. Change in nonadmitted assets (Exhibit 1, Line 5, Col. 3)	(253,496,319)	(94,965,783)
27. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	84,106,200	(36,727,200)
28. Change in surplus notes	0	54,312
29. Surplus (contributed to) withdrawn from protected cells	0	0
30. Cumulative effect of changes in accounting principles	0	111,346,668
31. Capital changes:		
31.1. Paid in	0	0
31.2. Transferred from surplus (Stock Dividend)	0	0
31.3. Transferred to surplus	0	0
32. Surplus adjustments:		
32.1. Paid in	0	0
32.2. Transferred to capital (Stock Dividend)	0	0
32.3. Transferred from capital	0	0
33. Net remittances from or (to) Home Office	0	0
34. Dividends to stockholders	0	0
35. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)	0	0
36. Aggregate write-ins for gains and losses in surplus	(38,209,548)	(193,621,171)
37. Change in surplus as regards policyholders for the year (Lines 22 through 36)	(494,420,078)	(569,729,362)
38. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 37) (Page 3, Line 35)	202,425,965	696,846,043
DETAILS OF WRITE-INS		
0501. Change in premium deficiency reserve	7,806,675	0
0502.	0	0
0503.	0	0
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above)	7,806,675	0
1401. Finance and service charges not included in premiums - intercompany pool	217,932	252,769
1402. Retroactive reinsurance gain/(loss)	(470,605,704)	142,282,503
1403. Other income	14,600,546	9,933,975
1498. Summary of remaining write-ins for Line 14 from overflow page	229,183,168	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above)	(226,604,058)	152,469,247
3601. Change in minimum pension liability	31,790,452	(133,068,885)
3602. Correction of errors	0	(60,552,286)
3603. Reinsurance allowance	(70,000,000)	0
3698. Summary of remaining write-ins for Line 36 from overflow page	0	0
3699. Totals (Lines 3601 thru 3603 plus 3698) (Line 36 above)	(38,209,548)	(193,621,171)

CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
Cash from Operations		
1. Premiums collected net of reinsurance.....	(176,569,523)	1,761,692,410
2. Net investment income.....	93,484,788	184,460,764
3. Miscellaneous income.....	(251,607,137)	(78,440,373)
4. Total (Lines 1 to 3).....	(334,691,872)	1,867,712,801
5. Benefits and loss related payments.....	(328,566,582)	972,246,292
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions.....	438,290,399	642,657,385
8. Dividends paid to policyholders.....	56,349,208	96,927,812
9. Federal and foreign income taxes paid (recovered) \$ net tax on capital gains (losses)	(21,470,303)	(42,346,611)
10. Total (Lines 5 through 9).....	144,602,722	1,669,484,878
11. Net cash from operations (Line 4 minus Line 10).....	(479,294,594)	198,227,923
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	986,642,235	2,885,782,870
12.2 Stocks.....	1,101,055,536	184,921,899
12.3 Mortgage loans.....	40,127,929	12,603,680
12.4 Real estate.....	36,337,105	37,694,064
12.5 Other invested assets.....	68,069,854	91,050,411
12.6 Net gains or (losses) on cash and short-term investments.....	(15,000,020)	3,099,032
12.7 Miscellaneous proceeds.....	0	63,693,256
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	2,217,232,639	3,278,845,212
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	1,252,477,030	926,183,915
13.2 Stocks.....	257,074,538	1,026,097,824
13.3 Mortgage loans.....	4,349,116	0
13.4 Real estate.....	268,216	10,696,712
13.5 Other invested assets.....	68,408,229	22,524,561
13.6 Miscellaneous applications.....	153,659,310	46,248,464
13.7 Total investments acquired (Lines 13.1 to 13.6).....	1,736,236,439	2,031,751,476
14. Net increase (or decrease) in policy loans and premium notes.....	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14).....	480,996,200	1,247,093,736
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....	0	54,312
16.2 Capital and paid in surplus, less treasury stock.....	0	0
16.3 Borrowed funds received.....	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).....	764,326,229	(587,010,721)
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6).....	764,326,229	(586,956,409)
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
18. Net change in cash and short-term investments (Line 11 plus Line 15 plus Line 17).....	766,027,835	858,365,250
19. Cash and short-term investments:		
19.1 Beginning of year.....	1,104,545,896	246,180,646
19.2 End of period (Line 18 plus Line 19.1).....	1,870,573,731	1,104,545,896

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS EARNED

Lines of Business		1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1.	Fire	(1,520,716)	1,738,092	1,254,031	(1,036,655)
2.	Allied lines	6,102,010	743,065	1,971,098	4,873,977
3.	Farmowners multiple peril	0	0	0	0
4.	Homeowners multiple peril	5,334,960	21,114,850	1,529,582	24,920,228
5.	Commercial multiple peril	27,500,021	25,498,800	2,419,624	50,579,197
6.	Mortgage guaranty	0	0	0	0
8.	Ocean marine	921,346	1,323,217	28,135	2,216,428
9.	Inland marine	29,471,616	12,876,715	4,279,321	38,069,010
10.	Financial guaranty	0	0	0	0
11.1	Medical malpractice - occurrence	2,379,873	(27,367)	2,166,034	186,472
11.2	Medical malpractice - claims-made	578,572	815,459	(1,784,741)	3,178,772
12.	Earthquake	862,259	766,573	88,682	1,540,150
13.	Group accident and health	8,903,894	0	0	8,903,894
14.	Credit accident and health (group and individual)	0	0	0	0
15.	Other accident and health	307,358	1,337,972	0	1,645,330
16.	Workers' compensation	192,940,607	39,797,694	22,056,535	210,681,766
17.1	Other liability - occurrence	46,198,576	39,416,465	48,867,650	36,747,391
17.2	Other liability - claims-made	(6,405,547)	30,593,137	(4,823,124)	29,010,714
18.1	Products liability - occurrence	(12,242,516)	12,599,324	298,336	58,472
18.2	Products liability - claims-made	15,361	56,641	(65,278)	137,280
19.1,19.2	Private passenger auto liability	13,977,496	18,365,687	3,604,309	28,738,874
19.3,19.4	Commercial auto liability	31,161,076	24,022,502	6,222,996	48,960,582
21.	Auto physical damage	13,117,382	16,441,883	1,580,168	27,979,097
22.	Aircraft (all perils)	(264,215)	0	0	(264,215)
23.	Fidelity	1,794,890	498,791	509,605	1,784,076
24.	Surety	24,669,786	18,971,663	19,407,627	24,233,822
26.	Burglary and theft	89,966	56,113	10,469	135,610
27.	Boiler and machinery	258,683	161,721	4,564	415,840
28.	Credit	164,150	295,272	113,467	345,955
29.	International	0	0	0	0
30.	Reinsurance - Nonproportional Assumed Property	8,278	23,757	3,274	28,761
31.	Reinsurance - Nonproportional Assumed Liability	2,954,257	1,921,660	1,853,128	3,022,789
32.	Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0
33.	Aggregate write-ins for other lines of business	(148,713,308)	0	0	(148,713,308)
34.	TOTALS	240,566,115	269,409,686	111,595,492	398,380,309
DETAILS OF WRITE-INS					
3301.	Novat ions.....	(148,713,308)	0	0	(148,713,308)
3302.	.....			
3303.	.....			
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0
3399.	Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	(148,713,308)	0	0	(148,713,308)

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1A - RECAPITULATION OF ALL PREMIUMS

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

Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (b)	2 Amount Unearned (Running More Than One Year from Date of Policy) (b)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols: 1 + 2 + 3 + 4
1. Fire	1,253,779	252			1,254,031
2. Allied lines	1,983,431	(12,333)			1,971,098
3. Farmowners multiple peril					0
4. Homeowners multiple peril	1,529,582				1,529,582
5. Commercial multiple peril	9,825,464	(7,405,840)			2,419,624
6. Mortgage guaranty					0
8. Ocean marine	63,264	(35,129)			28,135
9. Inland marine	5,982,040	(1,702,719)			4,279,321
10. Financial guaranty					0
11.1 Medical malpractice - occurrence	2,198,093	(32,059)			2,166,034
11.2 Medical malpractice - claims-made	(1,688,350)	(96,391)			(1,784,741)
12. Earthquake	114,938	(26,256)			88,682
13. Group accident and health					0
14. Credit accident and health (group and individual)					0
15. Other accident and health					0
16. Workers' compensation	37,076,541	(17,017,499)		1,997,493	22,056,535
17.1 Other liability - occurrence	29,562,994	19,304,656			48,867,650
17.2 Other liability - claims-made	(16,048,199)	11,225,075			(4,823,124)
18.1 Products liability - occurrence	105,243	193,093			298,336
18.2 Products liability - claims-made	(65,278)				(65,278)
19.1,19.2 Private passenger auto liability	3,677,302	(72,993)			3,604,309
19.3,19.4 Commercial auto liability	8,831,435	(2,608,439)			6,222,996
21. Auto physical damage	2,445,881	(865,713)			1,580,168
22. Aircraft (all perils)					0
23. Fidelity	61,607	447,998			509,605
24. Surety	(2,693,051)	22,100,678			19,407,627
26. Burglary and theft	14,742	(4,273)			10,469
27. Boiler and machinery	12,711	(8,147)			4,564
28. Credit	(20,765)	134,232			113,467
29. International					0
30. Reinsurance - Nonproportional Assumed Property	3,274				3,274
31. Reinsurance - Nonproportional Assumed Liability	254,731	1,598,397			1,853,128
32. Reinsurance - Nonproportional Assumed Financial Lines					0
33. Aggregate write-ins for other lines of business	0	0	0	0	0
34. TOTALS	84,481,409	25,116,590	0	1,997,493	111,595,492
35. Accrued retrospective premiums based on experience					
36. Earned but unbilled premiums					
37. Balance (Sum of Line 34 through 36)					111,595,492
DETAILS OF WRITE-INS					
3301.					
3302.					
3303.					
3398. Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0
3399. Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0

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

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

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

ANNUAL STATEMENT FOR THE YEAR 2003 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

UNDERWRITING AND INVESTMENT EXHIBIT
PART 1B - PREMIUMS WRITTEN

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

Line of Business	1 Direct Business (a)	Reinsurance Assumed		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	(444,899)	2,325,012	2,126,214	(1,413,085)	6,940,128	(1,520,716)
2. Allied lines	1,322,688	1,884,770	7,228,932	390,865	3,943,515	6,102,010
3. Farmowners multiple peril			7,226		7,226	0
4. Homeowners multiple peril	21,041,278	97,673,181	31,530	(125,253)	113,536,282	5,334,960
5. Commercial multiple peril	22,157,489	80,254,109	282,826	26,325,664	48,868,739	27,500,021
6. Mortgage guaranty						0
8. Ocean marine	1,183,709	7,904,546	21,759	2,557,452	5,631,216	921,346
9. Inland marine	25,490,137	38,040,925	3,069,917	25,037,358	12,092,005	29,471,616
10. Financial guaranty						0
11.1 Medical malpractice - occurrence	423,383	2,385,962	5,803	69,731	365,544	2,379,873
11.2 Medical malpractice - claims-made	2,956,960	1,032,907	13,142	2,015,527	1,408,910	578,572
12. Earthquake	396,035	3,549,543	8,532	235,393	2,856,458	862,259
13. Group accident and health	57,571,443		11,390,134	6,157,213	53,900,470	8,903,894
14. Credit accident and health (group and individual)						0
15. Other accident and health	71,530	260,644	19,935		44,751	307,358
16. Workers' compensation	45,336,420	324,954,286	33,374,583	171,134,341	39,590,341	192,940,607
17.1 Other liability - occurrence	17,275,756	78,253,945	972,839	5,231,780	45,072,184	46,198,576
17.2 Other liability - claims-made	(36,153,859)	1,467,533	(11,180,820)	4,816,229	(44,277,828)	(6,405,547)
18.1 Products liability - occurrence	(20,800,286)	4,099,941	451,941	(742,310)	(3,263,578)	(12,242,516)
18.2 Products liability - claims-made	135,137	(301,112)	154,668	46,740	(73,408)	15,361
19.1,19.2 Private passenger auto liability	47,877,929	134,484,371	5,732,600	(73,840)	174,191,244	13,977,496
19.3,19.4 Commercial auto liability	(50,996,019)	39,933,222	7,872,070	13,757,794	(48,109,597)	31,161,076
21. Auto physical damage	26,430,368	101,813,484	909,255	3,439,675	112,596,050	13,117,382
22. Aircraft (all perils)	(917,529)	(9,340)	689,222		26,568	(264,215)
23. Fidelity	587,069	934,011	(5,293)	439,944	(719,047)	1,794,890
24. Surety	9,057,973	62,515,664	859,435	9,081,454	38,681,832	24,669,786
26. Burglary and theft	(4,397)	66,887	43,813	66,863	(50,526)	89,966
27. Boiler and machinery	105,612	689,685	(35)	225,260	311,319	258,683
28. Credit	370,802	161,386	300,000	150,276	517,762	164,150
29. International						0
30. Reinsurance - Nonproportional Assumed Property	XXX		52,875	(262)	44,859	8,278
31. Reinsurance - Nonproportional Assumed Liability	XXX	985,819	8,724,712	(148,250)	6,904,524	2,954,257
32. Reinsurance - Nonproportional Assumed Financial Lines	XXX					0
33. Aggregate write-ins for other lines of business	(161,644,900)	0	0	0	(12,931,592)	(148,713,308)
34. TOTALS	8,829,829	985,361,381	73,157,815	268,676,559	558,106,351	240,566,115
DETAILS OF WRITE-INS						
3301. Novations	(161,644,900)				(12,931,592)	(148,713,308)
3302.						
3303.						
3398. Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0
3399. Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	(161,644,900)	0	0	0	(12,931,592)	(148,713,308)

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

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

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

ANNUAL STATEMENT FOR THE YEAR 2003 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 Previous Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)				
1. Fire	1,065,879	3,781,733	2,934,491	1,913,121	3,186,758	2,880,703	2,219,176	(214.1)
2. Allied lines	835,304	1,613,152	2,327,633	120,823	2,174,367	2,119,270	175,920	3.6
3. Farmowners multiple peril		5,691	6,024	(333)	4,161	0	3,828	0.0
4. Homeowners multiple peril	22,392,927	85,980,170	87,817,964	20,555,133	15,432,428	18,383,941	17,603,620	70.6
5. Commercial multiple peril	64,551,748	103,995,228	176,650,854	(8,103,878)	191,809,586	188,145,201	(4,439,493)	(8.8)
6. Mortgage guaranty				0	0	0	0	0.0
8. Ocean marine	5,023,109	3,131,423	6,344,123	1,810,409	(9,400,098)	(1,503,226)	(6,086,463)	(274.6)
9. Inland marine	51,394,055	(10,309,408)	34,065,583	7,019,064	12,386,058	(201,864)	19,606,986	51.5
10. Financial guaranty				0	0	0	0	0.0
11.1 Medical malpractice - occurrence	5,000	(2,981)	(107,311)	109,330	286,874	(321,515)	717,719	384.9
11.2 Medical malpractice - claims-made	511,274	(575,267)	2,074,029	(2,138,022)	4,576,952	1,742,964	695,966	21.9
12. Earthquake	58,151	829,247	708,413	178,985	(1,781,245)	(529,019)	(1,073,241)	(69.7)
13. Group accident and health	35,438,548	(10,020,501)	38,328,142	(12,910,095)	39,670,852	19,938,628	6,822,129	76.6
14. Credit accident and health (group and individual)				0	0	0	0	0.0
15. Other accident and health	286,234	279,258	508,622	56,870	1,693,646	564,254	1,186,262	72.1
16. Workers' compensation	230,576,219	106,575,372	572,472,221	(235,320,630)	1,573,965,035	1,289,260,533	49,383,872	23.4
17.1 Other liability - occurrence	318,693,761	(77,402,313)	316,986,117	(75,694,669)	720,470,721	397,201,941	247,574,111	673.7
17.2 Other liability - claims-made	74,749,232	(27,708,192)	107,381,118	(60,340,078)	141,999,259	114,088,483	(32,429,302)	(111.8)
18.1 Products liability - occurrence	10,218,293	(51,579,757)	48,008,609	(89,370,073)	(102,201,496)	314,959,033	(506,530,602)	(866,278.9)
18.2 Products liability - claims-made	100,000	2,481,308	4,301,200	(1,719,892)	11,068,280	578,760	8,769,628	6,388.1
19.1,19.2 Private passenger auto liability	60,499,878	126,769,851	134,150,911	53,118,818	110,739,871	149,062,055	14,796,634	51.5
19.3,19.4 Commercial auto liability	83,155,172	15,781,314	116,754,066	(17,817,580)	174,194,040	146,429,760	9,946,700	20.3
21. Auto physical damage	28,317,533	92,864,200	125,495,499	(4,313,766)	(1,216,296)	(10,613,057)	5,082,995	18.2
22. Aircraft (all perils)	6,590,106	89,553,327	67,158,002	28,985,431	10,483,017	1,195,505	38,272,943	(14,485.5)
23. Fidelity	2,519,193	(703,895)	2,981,320	(1,166,022)	1,299,156	704,423	(571,289)	(32.0)
24. Surety	185,511,956	15,490,983	187,714,658	13,288,281	66,746,523	39,598,816	40,435,988	166.9
26. Burglary and theft	118,515	(53,699)	224,761	(159,945)	40,347	(122,363)	2,765	2.0
27. Boiler and machinery	(52,340)	1,809,354	3,097,159	(1,340,145)	1,095,502	(719,426)	474,783	114.2
28. Credit	3,519,715	260,235	3,127,514	652,436	(1,082,632)	(2,266,222)	1,836,026	530.7
29. International				0	0	0	0	0.0
30. Reinsurance - Nonproportional Assumed Property	XXX	(93,379)	763,502	(856,881)	819,582	4,559,974	(4,597,273)	(15,984.4)
31. Reinsurance - Nonproportional Assumed Liability	XXX	27,124,030	28,825,315	(1,701,285)	125,749,692	55,589,596	68,458,811	2,264.8
32. Reinsurance - Nonproportional Assumed Financial Lines	XXX			0	0	0	0	0.0
33. Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0.0
34. TOTALS	1,186,079,462	499,876,484	2,071,100,539	(385,144,593)	3,094,210,940	2,730,727,148	(21,660,801)	(5.4)
DETAILS OF WRITE-INS								
3301.								
3302.								
3303.								
3398. Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0	0	0.0
3399. Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0	0	0.0

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ANNUAL STATEMENT FOR THE YEAR 2003 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

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

Line of Business	Reported Losses				Incurred But Not Reported			8 Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	9 Unpaid Loss Adjustment Expenses
	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded		
1. Fire	359,310	1,752,306	1,529,236	582,380	(542,762)	4,674,761	1,527,621	3,186,758	1,646,922
2. Allied lines	154,995	762,790	546,752	371,033	(390,088)	2,362,981	169,559	2,174,367	926,767
3. Farmowners multiple peril		154,403	154,403	0	4,161	27,284	27,284	4,161	266
4. Homeowners multiple peril	7,227,403	25,463,113	19,646,680	13,043,836	1,292,138	15,783,675	14,687,221	15,432,428	13,717,770
5. Commercial multiple peril	40,493,544	216,676,609	86,579,283	170,590,870	42,204,264	56,057,919	77,043,467	191,809,586	117,956,280
6. Mortgage guaranty				0				0	
8. Ocean marine	3,628,093	1,482,385	4,110,590	999,888	(9,872,006)	(375,139)	152,841	(9,400,098)	463,790
9. Inland marine	8,496,090	(1,256,568)	3,485,661	3,753,861	10,455,153	18,184,791	20,007,747	12,386,058	3,752,231
10. Financial guaranty				0				0	
11.1 Medical malpractice - occurrence	1,030	3,243	(2,964)	7,237	798,438	197,415	716,216	286,874	399,204
11.2 Medical malpractice - claims-made	811,093	4,100,857	2,720,163	2,191,787	3,426,679	2,548,162	3,589,676	4,576,952	668,854
12. Earthquake	47,672	95,062	164,051	(21,317)	141,527	(376,874)	1,524,581	(1,781,245)	1,134,160
13. Group accident and health	339,441	25,751,901	2,778,789	23,312,553	34,416,649	83,877,107	101,935,457	39,670,852	99,653
14. Credit accident and health (group and individual)				0				0	
15. Other accident and health	(262,377)	541,128	120,050	158,701	1,307,414	(94,609)	(322,140)	1,693,646	(12,300)
16. Workers' compensation	575,248,806	1,459,421,852	648,522,882	1,386,147,776	274,951,654	511,736,113	598,870,508	1,573,965,035	222,489,809
17.1 Other liability - occurrence	564,990,068	245,560,834	380,231,071	430,319,831	429,725,114	199,789,370	339,363,594	720,470,721	122,567,593
17.2 Other liability - claims-made	97,384,199	111,700,461	143,735,008	65,349,652	(60,598,732)	99,449,635	(37,798,704)	141,999,259	40,834,621
18.1 Products liability - occurrence	52,560,545	49,411,151	161,635,572	(59,663,876)	9,378,020	(72,556,900)	(20,641,260)	(102,201,496)	98,010,028
18.2 Products liability - claims-made		1,969,670	1,975,571	(5,901)	(413)	25,634,836	14,560,242	11,068,280	183,722
19.1,19.2 Private passenger auto liability	41,167,795	130,464,481	72,319,730	99,312,546	9,724,056	27,050,820	25,347,551	110,739,871	45,799,869
19.3,19.4 Commercial auto liability	80,366,967	100,572,070	81,727,403	99,211,634	193,990,513	55,697,479	174,705,586	174,194,040	35,976,816
21. Auto physical damage	1,681,475	4,315,153	5,538,095	458,533	(372,412)	(7,518,622)	(6,216,205)	(1,216,296)	8,277,426
22. Aircraft (all perils)	62,106,055	10,096,515	64,651,482	7,551,088	98,887	4,643,487	1,810,445	10,483,017	2,071,016
23. Fidelity	2,294,271	2,296,658	3,781,281	809,648	2,319,879	(1,422,850)	407,521	1,299,156	969,127
24. Surety	64,719,443	77,219,043	76,559,703	65,378,783	45,754,453	(27,646,033)	16,740,680	66,746,523	10,248,881
26. Burglary and theft	30,004	8,882	8,029	30,857	(10,778)	26,487	6,219	40,347	13,978
27. Boiler and machinery	122,406	224,688	94,462	252,632	435,392	414,505	7,027	1,095,502	462,090
28. Credit	616,114	10,514	495,699	130,929	1,957,116	465,432	3,636,109	(1,082,632)	180,432
29. International				0				0	
30. Reinsurance - Nonproportional Assumed Property	XXX	1,394,244	538,420	855,824	XXX	(1,198,292)	(1,162,050)	819,582	25,185
31. Reinsurance - Nonproportional Assumed Liability	XXX	118,296,542	77,969,641	40,326,901	XXX	361,300,414	275,877,623	125,749,692	894,677
32. Reinsurance - Nonproportional Assumed Financial Lines	XXX			0	XXX			0	
33. Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0	0
34. TOTALS	1,604,584,442	2,588,489,987	1,841,616,743	2,351,457,686	990,594,316	1,358,733,354	1,606,574,416	3,094,210,940	729,758,867
DETAILS OF WRITE-INS									
3301.									
3302.									
3303.									
3398. Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0	0	0	0
3399. Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0	0	0	0

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

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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	(22,658,868)			(22,658,868)
1.2 Reinsurance assumed	25,242,629			25,242,629
1.3 Reinsurance ceded	80,702,106			80,702,106
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	(78,118,345)	0	0	(78,118,345)
2. Commission and brokerage:				
2.1 Direct excluding contingent		22,057,061		22,057,061
2.2 Reinsurance assumed excluding contingent		109,652,041		109,652,041
2.3 Reinsurance ceded excluding contingent		172,000,587		172,000,587
2.4 Contingent-direct		(13,013,339)		(13,013,339)
2.5 Contingent-reinsurance assumed		2,635,153		2,635,153
2.6 Contingent-reinsurance ceded		1,204,833		1,204,833
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	(51,874,504)	0	(51,874,504)
3. Allowances to managers and agents		31,980		31,980
4. Advertising		1,607,613		1,607,613
5. Boards, bureaus and associations	68,545	5,322,840		5,391,385
6. Surveys and underwriting reports	5,273	7,308,622		7,313,895
7. Audit of assureds' records	0	351,776		351,776
8. Salary and related items:				
8.1 Salaries	32,869,761	109,168,799	1,000,913	143,039,473
8.2 Payroll taxes	2,704,875	5,264,968	80,624	8,050,467
9. Employee relations and welfare	4,017,767	13,663,941	127,818	17,809,526
10. Insurance	2,599,421	20,818,751		23,418,172
11. Directors' fees	0	959,389		959,389
12. Travel and travel items	1,207,439	5,293,904	7,866	6,509,209
13. Rent and rent items	4,745,394	12,423,821		17,169,215
14. Equipment	369,086	6,427,909	27,530	6,824,525
15. Cost or depreciation of EDP equipment and software	5,273	13,378,668		13,383,941
16. Printing and stationery	548,357	1,822,840	5,899	2,377,096
17. Postage, telephone and telegraph, exchange and express	1,476,345	5,948,215	70,792	7,495,352
18. Legal and auditing	47,454	10,140,093	6,210,710	16,398,257
19. Totals (Lines 3 to 18)	50,664,990	219,934,129	7,532,152	278,131,271
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$	2,003,972	45,066,973		45,066,973
20.2 Insurance department licenses and fees		2,759,230		2,759,230
20.3 Gross guaranty association assessments		2,003,972		2,003,972
20.4 All other (excluding federal and foreign income and real estate)		18,049,567		18,049,567
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)	0	67,879,742	0	67,879,742
21. Real estate expenses			5,541,747	5,541,747
22. Real estate taxes			1,969,877	1,969,877
23. Reimbursements by uninsured accident and health plans				0
24. Aggregate write-ins for miscellaneous expenses	2,061,610	99,862,360	13,706,275	115,630,245
25. Total expenses incurred	(25,391,745)	335,801,727	28,750,051	(a) 339,160,033
26. Less unpaid expenses - current year	729,758,862	184,905,720	689,098	915,353,680
27. Add unpaid expenses - prior year	771,410,165	263,863,456	19,821,937	1,055,095,558
28. Amounts receivable relating to uninsured accident and health plans, prior year	0	0	0	0
29. Amounts receivable relating to uninsured accident and health plans, current year				0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	16,259,558	414,759,463	47,882,890	478,901,911
DETAILS OF WRITE-INS				
2401. All other	2,061,610	99,862,360	13,706,275	115,630,245
2402.				
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page	0	0	0	0
2499. Totals (Lines 2401 thru 2403 plus 2498) (Line 24 above)	2,061,610	99,862,360	13,706,275	115,630,245

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

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 7,862,971	11,257,509
1.1 Bonds exempt from U.S. tax	(a) 21,713	21,713
1.2 Other bonds (unaffiliated)	(a) 62,636,919	58,045,983
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b) 708,033	708,033
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	902,539	903,492
2.21 Common stocks of affiliates	26,343,182	26,343,182
3. Mortgage loans	(c) 2,743,020	2,532,080
4. Real estate	(d) 12,425,859	12,424,759
5. Contract loans		
6. Cash/short-term investments	(e) 12,812,375	13,208,942
7. Derivative instruments	(f)	
8. Other invested assets	5,294,389	4,953,261
9. Aggregate write-ins for investment income	2,720,246	2,720,246
10. Total gross investment income	134,471,246	133,119,200
11. Investment expenses		(g) 28,750,051
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h) 282,938
14. Depreciation on real estate and other invested assets		(i) 2,777,665
15. Aggregate write-ins for deductions from investment income		0
16. Total (Lines 11 through 15)		31,810,654
17. Net Investment Income - (Line 10 minus Line 16)		101,308,546
DETAILS OF WRITE-INS		
0901. Income from securities lending	147,589	147,589
0902. Income from other sources	2,572,657	2,572,657
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)	2,720,246	2,720,246
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		0
1599. Total (Lines 1501 through 1503 plus 1598) (Line 15, above)		0

(a) Includes \$ 2,911,647 accrual of discount less \$ 9,808,167 amortization of premium and less \$ 5,731,373 paid for accrued interest on purchases.
 (b) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 365,892 paid for accrued dividends on purchases.
 (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
 (d) Includes \$ 9,058,843 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
 (e) Includes \$ 1,895,889 accrual of discount less \$ 0 amortization of premium and less \$ 76,553 paid for accrued interest on purchases.
 (f) Includes \$ 0 accrual of discount less \$ 0 amortization of premium.
 (g) Includes \$ 0 investment expenses and \$ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
 (h) Includes \$ 0 interest on surplus notes and \$ 0 interest on capital notes.
 (i) Includes \$ 2,777,665 depreciation on real estate and \$ 0 depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Increases (Decreases) by Adjustment	4 Net Gain (Loss) from Change in Difference Between Basis Book/ Adjusted Carrying and Admitted Values	5 Total
1. U.S. Government bonds	1,561,935				1,561,935
1.1 Bonds exempt from U.S. tax					0
1.2 Other bonds (unaffiliated)	19,613,878	(17,249,788)	262,079		2,626,169
1.3 Bonds of affiliates					0
2.1 Preferred stocks (unaffiliated)	(88,421)	(7,161,400)	471,001		(6,778,820)
2.11 Preferred stocks of affiliates	(379,146)	(338,000)	288,239		(428,907)
2.2 Common stocks (unaffiliated)	1,145,281	(355,881)	2,934,719		3,724,119
2.21 Common stocks of affiliates	(95,364,424)	(185,701,475)	101,415,911		(179,649,988)
3. Mortgage loans		(2,802,093)		89,561	(2,712,532)
4. Real estate	14,585,694	(44,686,502)			(30,100,808)
5. Contract loans					0
6. Cash/Short-term investments	(20)	(15,000,000)	(1,246,346)		(16,246,366)
7. Derivative instruments					0
8. Other invested assets		(74,676,322)	15,889,296	(132,401)	(58,919,427)
9. Aggregate write-ins for capital gains (losses)	(28,523,638)	(55,540,560)	(12,433,077)	0	(96,497,275)
10. Total capital gains (losses)	(87,448,861)	(403,512,021)	107,581,822	(42,840)	(383,421,900)
DETAILS OF WRITE-INS					
0901. Deferred gain on investment transfers from subsidiaries			(12,537,969)		(12,537,969)
0902. Loss on sale of assets	(29,322,333)				(29,322,333)
0903. Other fixed asset writedowns		(55,435,668)			(55,435,668)
0998. Summary of remaining write-ins for Line 9 from overflow page	798,695	(104,892)	104,892	0	798,695
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	(28,523,638)	(55,540,560)	(12,433,077)	0	(96,497,275)

EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS AND RELATED ITEMS

	1 End of Current Year	2 End of Prior Year	3 Changes for Year (Increase) Decrease
1. Summary of Items Page 2, Lines 12 through 20, Column 2	760,437,453	507,748,417	(252,689,036)
2. Other Nonadmitted Assets:			
2.1 Bills receivable		0	0
2.2 Leasehold improvements		0	0
2.3 Loans on personal security, endorsed or not		0	0
3. Total (Lines 2.1 to 2.3)	0	0	0
4. Aggregate write-ins for other than invested assets	23,025,342	22,218,059	(807,283)
5. Total (Line 1 plus Lines 3 and 4)	783,462,795	529,966,476	(253,496,319)
DETAILS OF WRITE-INS			
0401. Furniture, equipment and supplies.....		18,067,382	18,067,382
0402. Mortgage loans-other than first liens.....		89,561	89,561
0403. Other invested and non-admitted assets.....	213,043	80,642	(132,401)
0498. Summary of remaining write-ins for Line 4 from overflow page	22,812,299	3,980,474	(18,831,825)
0499. Totals (Lines 0401 thru 0403 plus 0498) (Line 4 above)	23,025,342	22,218,059	(807,283)

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

The accompanying financial statements of Lumbermens Mutual Casualty Company (the "Company") have been prepared in conformity with the National Association of Insurance Commissioners (the "NAIC") *Accounting Practices and Procedures Manual* (the "Manual") and in conformity with accounting allowances granted by the State of Illinois Department of Insurance (the "Department of Insurance").

Accounting Allowances

2003

At December 31, 2003, there are five accounting allowances granted by the Department of Insurance under Corrective Orders that are reflected in the accompanying financial statements of the Company.

1. **Loss Reserve Discounting.** At December 31, 2002, the Company discounted at 3.5% only certain categories of liabilities on its balance sheet (see Note 28). On June 19, 2003, the Company was granted an allowance to discount all its loss reserves at 3.5% beginning with the Company's financial statements for the quarter ended June 30, 2003. On December 23, 2003, the Department of Insurance granted the Company's request for an accounting allowance to increase the discount to 4.2%. At December 31, 2003, the total amount of the discount, included on the balance sheet and on Schedule P, Part 1, is \$1.1 billion, approximately \$131 million of which relates to the increase from 3.5% to 4.2%. The 4.2% discount rate exceeds the Company's current investment portfolio yield (see Note 14). The estimated increase in the Company's surplus as of December 31, 2003 is approximately \$610 million.
2. **Prepaid Unallocated Loss Adjustment Expense ("ULAE").** As a result of an accounting allowance granted on December 23, 2003, the balance sheet of the Company at December 31, 2003 reflects as an admitted asset the amounts that the Company has prepaid for claim handling services to NATLSCO/Broadspire (approximately \$82 million; see Note 4) and to National Indemnity Company (approximately \$23 million; see Note 10). Approximately \$15 million of ULAE expenses related to these two service providers were expensed in 2003.
3. **Defined Benefit Plans Accumulated Benefit Obligation ("ABO").** The balance sheet of the Company at December 31, 2003 reflects a change in the applicable interest rate assumption for calculating the ABO liability under the qualified Kemper Retirement Plan and the unqualified Kemper Supplemental Retirement Plan (see Note 12) from 6.25% to 7.5%. Implemented pursuant to an accounting allowance granted on December 23, 2003, the higher rate assumption reduced the ABO liability by approximately \$118 million from what the lower rate assumption would have produced.
4. **Accrued Post-Retirement Benefit Obligation.** Effective January 1, 2004, the Company amended its post-retirement benefit plans (see Note 12). On December 23, 2003, the Department of Insurance granted the Company's request for an accounting allowance to reflect the economic effect of the entire reduction in liability attributable to this change, a difference of approximately \$32 million, at December 31, 2003 rather than a gradual reduction of the liability over the average life span of the retirees.
5. **Change in Estimate for Uncollectible Reinsurance.** In the second half of 2003, the Company reviewed the credit of certain of its reinsurers with respect to reinsurance recoverables. On the basis of that review, the Company established a general provision for uncollectible reinsurance of \$48 million at September 30, 2003 and an additional \$22 million at December 31, 2003. In addition, the Company wrote off approximately \$13 million of reinsurance recoverables in 2003. In light of the Company's newly established \$70 million general provision for uncollectible reinsurance, on December 23, 2003, the Department of Insurance granted the Company's request for an allowance for the elimination of the Schedule F penalty. The net benefit to the Company's surplus at December 31, 2003 from this accounting allowance offset by the newly established general provision for uncollectible reinsurance amounted to approximately \$75 million (see Note 23).

The combined effect of these accounting allowances granted in 2003 benefited the Company's reported statutory surplus at December 31, 2003 by approximately \$1 billion. Of this amount, approximately \$570 million was only realized as a benefit because the Company, in contemplation of receiving approval for the June 2003 accounting allowance on loss reserve discounting, commuted certain reinsurance contracts to improve liquidity (see Note 23).

2002

Beginning in 2000, the Company was permitted by the Department of Insurance to modify its accrual for policyholder dividends in order to accrue for the ultimate dividend payment, rather than

NOTES TO FINANCIAL STATEMENTS

just dividends declared by the Board. As a result of this permitted practice, the amount of dividends accrued, but not yet declared by the Company's Board, decreased pre-tax net income by \$42,260,746 at December 31, 2002. On October 1, 2002, the Department of Insurance allowed the Company to revert to the statutory accounting rules included in the Manual. As such, the amounts included in the December 31, 2002 statutory statement of admitted assets, liabilities, and surplus related to dividends payable and accrued retrospective premiums only reflect dividends declared by the Board as of December 31, 2002. The cumulative effect of the change in method of accounting for dividends amounted to an increase in surplus of \$111,346,668 and was recorded directly to surplus as of December 31, 2002 as a component of the cumulative effect of changes in accounting principles.

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

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

As further discussed below, significant estimates and assumptions affect various provisions including losses and policyholder dividends. The liabilities for losses and loss adjustment expenses, although supported by actuarial analysis and other data, are ultimately based on management's reasoned expectations of future events. As further described in Note 29, estimates of losses and loss adjustment expenses related to environmental and asbestos claims are also subject to a greater degree of uncertainty and variability. Policyholder dividend recalls (accrued retrospective premiums) and dividends payable are estimated based on similar assumptions used to estimate the ultimate liabilities for losses and loss adjustment expenses.

C. Accounting Policy

The Company's significant accounting policies are as follows:

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

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

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

Investments in affiliated common and preferred stocks are generally carried at the underlying statutory equity of the respective entity's financial statements, adjusted for unamortized goodwill. Goodwill is amortized over 10 years, and goodwill amortization or goodwill which is deemed to be impaired on an other than temporary basis is charged directly to surplus.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

At December 31, 2003, all real estate owned is held for sale and is carried at the lower of cost or fair value less estimated costs to sell. Depreciation expense is computed using the 150% declining-balance method of depreciation for real estate purchased prior to 1981 and the straight-line method of depreciation for real estate purchased in 1981 and subsequent years.

The Company is the lead company of the group of affiliated and associated companies (the Group) that have operated under the trade name of the Kemper Insurance Companies. The significant majority of the business written by member insurance companies of the Group has historically been ceded to the Company through quota share reinsurance agreements with some Company subsidiaries retaining a portion of the business written and through a quota share pooling agreement by and among the Company, American Motorists Insurance Company (AMICO) and American Manufacturers Mutual Insurance Company (AMM). Prior to 2003, of the insurance business directly written by the Company or ceded to the Company, including all business written by AMICO and AMM, the Company ceded (net of third-party, unaffiliated, reinsurance and excluding Canadian business) 15% to AMICO and 8% to AMM. (Third-party reinsurance has generally attached after cessions by affiliates to the Company, although some specific risks have been subject to facultative or other reinsurance before cession to the Company.) Effective January 1, 2003, the pooling agreement was amended to eliminate the 15% cession to AMICO, and effective December 31, 2003, the pooling agreement was amended to eliminate the 8% cession to AMM. The effect of both amendments was for the Company to retain all previously ceded risks, and the amendments were accompanied by transfers of assets by each of AMICO and AMM in order to satisfy the liabilities transferred to the Company by the pooling agreement amendments. As a result, at December 31, 2003, the net reserves at each of AMICO and AMM is zero. Loss and loss expense reserves for the Group were analyzed in the aggregate for all companies and allocated to certain Company subsidiaries based on the business retained within those companies.

The Company provides a liability for losses based upon aggregate case-basis estimates for losses reported, estimates received from ceding reinsurers, and estimates of incurred but not reported (IBNR) losses related to direct and assumed business, less reinsured amounts. Reserves for unreported losses are established using various statistical and actuarial techniques reflecting historical patterns of development of paid and reported losses adjusted for current trends. Certain liabilities for unpaid losses related to workers' compensation pension cases and long-term disability losses are discounted to present value, as discussed above.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

of income. Unrealized gains or losses on revaluation of investments are credited or charged to unassigned surplus.

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

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

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

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

Accounting Changes

During 2002, the Department of Insurance allowed the Company to change its method of accounting for dividends (see Note 1A). The cumulative effect of the change in method was treated as a change in accounting principle resulting in an increase to surplus of \$111,346,668 as of December 31, 2002.

Correction of Errors

During 2002, the Company determined certain finite and other types of reinsurance contracts did not pass the risk transfer rules documented in Statement of Statutory Accounting Principles (SSAP) No. 62, *Property and Casualty Reinsurance* (SSAP 62). In compliance with SSAP No. 75, *Reinsurance Deposit Accounting*, reinsurance contracts which do not pass risk transfer are required to be accounted for as deposits rather than reinsurance.

During 2002, the Company determined certain of the Company's aggregate excess of loss reinsurance treaties related to the 1998 through 2001 accident years contain certain optionality provisions which allow the Company to determine the timing of cessions into these treaties. As a result of these provisions, only the original calendar cessions which equate to the same treaty accident year qualify for prospective reinsurance accounting treatment with subsequent cessions treated as retroactive reinsurance. The Company also amended the 2001 aggregate excess of loss treaty during early 2003 to conform with SSAP 62. As a result, cessions to the 2001 treaty as of December 31, 2001 have been reclassified to retroactive accounting as of December 31, 2002. Although total net income and total surplus were correct as stated, the combined impact on losses ceded from the reclassification of these treaties from prospective to retroactive reinsurance accounting amounted to \$284,000,000. Of this amount, \$100,000,000 related to 2001 accident year losses placed into the 2001 treaty and \$184,000,000 related to 2000 accident year losses placed into the 2000 treaty. Under the terms of the pool in effect during 2002, the Company's 77% share of this accounting change was \$218,680,000.

During 2002 and 2003, the Company also reconciled a number of balance sheet accounts related to amounts billed and receivable under high deductible policies, remittances and items not allocated and other miscellaneous assets and liabilities.

The decrease in surplus as of December 31, 2002 related to these corrections on the Company's previously issued statutory financial statements was as follows:

	Risk Transfer & Reconciliation Project	Aggregate Excess of Loss Reinsurance Treaties	Total
Reinsurance related	\$ (67,284,914)	-	(67,284,914)
Completion of reconciliation project	(39,014,389)	-	(39,014,389)
	(106,299,303)	-	(106,299,303)
Less amounts ceded to AMICO and AMM	45,747,017	-	45,747,017
Amount retained by the Company before equity pick-up in AMICO	\$ (60,552,286)	-	(60,552,286)

NOTES TO FINANCIAL STATEMENTS

In accordance with SSAP No. 3, *Accounting Changes and Corrections of Errors*, the Company recorded the correction of these errors directly to surplus as of December 31, 2002.

3. BUSINESS COMBINATIONS AND GOODWILL

UBIC

During the second quarter of 2002, the Company was notified of claims on surety bonds issued in connection with a series of unauthorized programs by Universal Bonding Insurance Company (UBIC), then an 80% owned subsidiary domiciled in the State of New Jersey, the true nature of which was not fully disclosed to certain members of UBIC's management or to the Company. As a result, the Company began pursuing an investigation into the validity, available defenses and potential recoveries of such bonds. On July 9, 2002, UBIC discontinued issuing any further bonds, except those bonds which UBIC was statutorily obligated to renew.

In addition to recognizing the above net loss on the unauthorized bonds, the Company also wrote-off the following related to UBIC during 2002: 1) the Company's remaining investment, including goodwill, in UBIC; 2) \$45.5 million of surplus notes issued to UBIC during 2002 in order to enable UBIC to satisfy its other claim obligations and operating expenses; and 3) \$474 thousand of intercompany receivables due from UBIC (also see Note 4 regarding Discontinued Operations).

As of December 31, 2003, settlement negotiations have been concluded with respect to nearly all of the unauthorized bonds that have been identified. The Company has pursued significant defenses and avenues of recovery (including but not limited to proceeds from various insurance and reinsurance coverage, salvage and subrogation, and recoveries from responsible third parties). The ultimate loss and LAE on these bonds as of December 31, 2003 is \$103.1 million before reinsurance and other recoveries, and \$10.9 million after anticipated recoveries.

The write-off of the goodwill was treated as a direct charge to surplus as a component of the change in net unrealized capital losses. The original investment in UBIC, the net exposure to the unauthorized bonds, the surplus note fundings, the reserve for discontinued operations and the intercompany balances were treated as net realized capital losses as of December 31, 2002 as follows:

	Net realized capital losses	Net unrealized capital losses	Total impact on surplus
	(in thousands)		
Impairment of original investment	\$ 11,014	—	11,014
Goodwill impairment	—	7,229	7,229
Surplus note fundings	45,500	—	45,500
Accrual for discontinued operations	2,900	—	2,900
Insurance claims on unauthorized surety bond claims in excess of recoveries	11,792	—	11,792
Write-off of intercompany receivables	474	—	474
	\$ 71,680	7,229	78,909

Goodwill

Over the past several years, the Company purchased several operating insurance companies and various non-operating insurance company shells primarily to expand its specialty underwriting operations. Such acquisitions have been placed under insurance holding companies, all of which are ultimately 100% owned by the Company. As a result of these aforementioned acquisitions, unamortized goodwill at December 31, 2003 and 2002 was as follows:

	2003	2002
Kemper Casualty, Inc.	\$ 0	5,305,000
Kemper Employers Group, Inc.	0	28,102,000
Kempes, Inc.	0	11,794,000
Kemper International Corporation	0	282,000
Unamortized goodwill	\$ 0	45,483,000

During 2002, the Company wrote-off \$33,480,368 of unamortized goodwill related to the acquisition of a block of business acquired from Reliance Insurance Company's large risk casualty unit.

NOTES TO FINANCIAL STATEMENTS

During 2002, the Company's wholly-owned subsidiary, AMICO, also wrote-off \$16,341,813 of unamortized goodwill related to the acquisition of the stock of Lou Jones and Associates, a producer of surety contracts.

During 2003, the Company wrote-off all remaining unamortized goodwill in the amount of \$45.4 million due to its impaired value, all of which related to purchases of operating insurance companies and various non-operating insurance company shells over the last five years.

The write-off of the above goodwill in 2003 and 2002 was the result of the Company's decision to cease its underwriting operations, subject to non-renewal and withdrawal notices under applicable state insurance laws and certain third party contractual commitments, and place the Company into a commercial run-off (see Note 14). These write-offs were charged directly to surplus as a component of the change in net unrealized capital losses.

4. DISCONTINUED OPERATIONS

In addition to the realized losses related to UBIC in Note 3, the Company is carrying a reserve for discontinued operations related to the run-off of UBIC's operations. The reserve for discontinued operations was treated as a realized capital loss during 2002 and the remaining reserve is \$2.9 million as of as of December 31, 2003.

5. INVESTMENTS

No new mortgage loans were made during 2003. The maximum percentage of a loan to the value of the security at the time of the loan was 90%. As of December 31, 2003, there are no mortgages with interest more than 180 days overdue, and none where interest rates have been reduced. The Company has not paid any taxes, assessments, or other advances on account of mortgage loans outstanding which are not included in the mortgage loan balance. During 2003, the Company recorded an impairment writedown of \$3.9 million on a commercial loan. There were no mortgage debt restructurings during 2003.

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

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

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

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

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.

During 2003, the Company recorded impairment writedowns of \$72,008,079 related to its investments in joint venture, partnership and limited liability company interests.

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, 2003.

8. DERIVATIVE INSTRUMENTS

None.

NOTES TO FINANCIAL STATEMENTS

9. INCOME TAXES

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

		December 31, 2003	December 31, 2002
Total of gross deferred tax assets	\$	622,072,595	507,438,098
Total of deferred tax liabilities		(8,744,660)	(13,459,488)
Net deferred tax asset		613,327,935	493,978,610
Deferred tax asset nonadmitted		(613,327,935)	(407,609,142)
Net admitted deferred tax asset		0	86,369,468
Increase in nonadmitted asset	\$	(205,718,793)	

All deferred tax liabilities were recognized.

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

		December 31, 2003	December 31, 2002
Federal	\$	(21,966,507)	(51,688,305)
Foreign		(5,202,128)	1,799,534
Federal and foreign income taxes incurred	\$	(27,168,635)	(49,888,771)

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

		December 31, 2003	December 31, 2002
Deferred tax assets:			
Reserves	\$	52,482,813	99,102,147
Accrued liabilities		108,997,123	112,311,561
Loss carryforwards		268,840,985	214,229,663
Investments		80,729,712	42,897,927
Receivables		87,641,375	16,058,792
Other		23,380,587	22,838,008
Total deferred tax assets		622,072,595	507,438,098
Nonadmitted deferred tax assets		(613,327,935)	(407,609,142)
Admitted deferred tax assets		8,744,660	99,828,956
Deferred tax liabilities:			
Salvage and subrogation		(6,594,097)	(5,778,201)
Real estate		0	(7,203,872)
Investments		(2,150,563)	(477,415)
Total deferred tax liabilities		(8,744,660)	(13,459,488)
Net admitted deferred tax asset	\$	0	86,369,468

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

		December 31, 2003	December 31, 2002		Change
Total deferred tax assets	\$	622,072,595	507,438,098	\$	114,634,497
Total deferred tax liabilities		(8,744,660)	(13,459,488)		4,714,828
Net deferred tax asset	\$	613,327,935	493,978,610		119,349,325
Tax effect of unrealized gains (losses)					0
Changes in net deferred income tax				\$	119,349,325

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

		December 31, 2003
Provision computed at statutory rate	\$	(190,591,247)
Prior period adjustment		(10,816,060)
Investments		125,300,912
Receivables		(71,582,583)
Accrued liabilities		20,612,926

NOTES TO FINANCIAL STATEMENTS

Other		(19,441,908)
Total	\$	(146,517,960)
Federal and foreign income taxes incurred	\$	(27,168,635)
Change in net deferred income taxes		(119,349,325)
Total statutory income taxes	\$	(146,517,960)

At December 31, 2003, the Company had a capital loss carryforward of \$31,644,322 originating in 2003 which expires, if unused, in 2008.

At December 31, 2003, the Company had \$736,472,778 of operating loss carry forward which originated and expires as follows:

Origination Year	Expiration Year	Amount
2000	2020	\$129,674,390
2001	2021	\$355,129,028
2002	2022	\$132,067,143
2003	2023	\$119,602,217

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

The Company files as part of a consolidated Federal income tax return which includes the Company as the common parent corporation and the following affiliated entities: AMICO, AMICO Realty Corporation, American Protection Insurance Company, American Protection Property & Casualty Agency, Inc., American Protection Property & Casualty Agency, Inc. of Texas, American Protection Property and Casualty Insurance Agency, Inc., American Underwriting Corporation, Eagle Pacific Insurance Company, GreatLand Holdings, Inc., GreatLand Insurance Company, Juris Prudent, Inc., Kemper Castlebridge, Inc., Kemper Casualty, Inc., Kemper Casualty Insurance Company, Kemper Commercial Insurance Company, Kemper Comprehensive Insurance Company, Kemper Cost Management, Inc., Kemper Cost Management Holding Company, Inc., Kemper Employers Claim Service, Inc., Kemper Employers Group, Inc., Kemper Employers Insurance Company, Kemper Environmental Managers, Inc., Kemper Financial Protection, Inc., Kemper Indemnity Insurance Company, Kemper Insurance Group, Inc., Kemper Insurance Holdings #2, Inc., Kemper International Corporation, Kemper Lloyds Insurance Company, Kemper National Services, Inc., Kemper Realty Corporation, Kemper Safeguard Surplus Insurance Company, Kemper Surplus Lines Insurance Company, Kemper Technology Services, Inc., Kemper Ventures Management Company, Inc., Kemper Warranty Services, Inc., Kempes, Inc., K-P Plaza Dallas, LGA-1, Inc., LGA-2, Inc., LGA-3, Inc., LGA-4, Inc., LGA-5, Inc., LGA-6, Inc., LGA-7, Inc., LGA-8, Inc., LGA-9, Inc., LGA-10, Inc., LGA-11, Inc., LGA-12, Inc., LGA-13, Inc., LGA-14, Inc., LGA-15, Inc., LGA-16, Inc., LGA-17, Inc., LGA-18, Inc., LGA-19, Inc., LGA-20, Inc., LLA Life Agency/Massachusetts, Inc., LLA Life Agency/New Hampshire, Inc., LLA Life Agency/New Jersey, Inc., LLA Life Agency/Texas, Inc., Long Grove Insurance Company, Lou Jones & Associates, Lumbermens Life Agency, Inc., NATLSCO, Inc., National Loss Control Service Corporation, Nereus Holdings, Inc., Pacific Eagle Insurance Company, Pillar Services, Inc., Point & Quote Insurance Services, Inc., PointSure Insurance Services, Inc., RidgeLand Insurance Company, Specialty Insurance Managers, Inc., Specialty National Insurance Company, Specialty Resource Risk Services, Inc., Specialty Surplus Insurance Company, Universal Bonding Holding Company, and Universal Bonding Insurance Company.

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

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES

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

NOTES TO FINANCIAL STATEMENTS

Significant Transactions

Service Net Solutions, LLC

On July 2, 2003, a wholly owned subsidiary of the Company, Kemper Warranty Services, Inc. (KWS), sold its 51% ownership stake in Service Net Solutions, LLC (Service Net) for \$6.5 million and a release of future financial obligations arising under the original purchase agreement. The Company realized a net gain in 2003 of \$732 thousand as a result of the sale. Service Net retained its current staff of approximately 40 employees. As part of the transaction, the Company established a collateral trust in the amount of \$35 million to secure obligations arising out of contractual liability policies issued by the Company and its affiliates to Service Net to insure the consumer warranty contracts sold by Service Net to its customers. Trust assets at December 31, 2003 were \$25.8 million.

NATLSCO, Inc.

On July 22, 2003, the Company sold its wholly owned subsidiary NATLSCO, Inc. and related service operations (NATLSCO) to a buyer (Broadspire LLC) owned by Platinum Equity LLC (the Buyer). Resident in NATLSCO were the assets used in the administration of the Company's general liability, workers compensation and employer liability claims and the third-party claim servicing operation. The Company booked a realized loss on the transaction of \$180.8 million, assigning no value to contingent earn out payments the Company could realize in years 2004 through 2007. The realized loss is subject to change based on the final post-closing settlement with the Buyer, which is anticipated to occur in the second quarter of 2004. As part of the transaction, the Buyer hired approximately 3,300 of the Company's employees. The Company agreed to share in any severance costs incurred by the Buyer, up to a maximum of \$6 million dollars, for two years following the closing date. The Company assumed that the \$6 million would be incurred for purposes of calculating the realized loss above.

The Company also entered into a long-term Claim Administration Agreement with NATLSCO for the servicing of most of the Company's existing workers' compensation, general liability and employer liability claims. The Company paid NATLSCO \$95,257,000 in advance for the future servicing of such claims, of which \$56,760,000 was placed in trust by Buyer to be drawn down monthly over a four-year period commencing January 1, 2006. The Company does receive the interest on the Buyer's trust assets. In accordance with the accounting allowance more fully described in Note 1, the Company reflects this prepaid amount for claim handling services (approximately \$82 million as of December 31, 2003) as an admitted asset.

Kemper Cost Management, Inc.

On August 16, 2003, a wholly owned subsidiary of the Company, Kemper Cost Management Holding Company, Inc. (KCMHC), sold 100% of the capital stock of its wholly-owned subsidiary, Kemper Cost Management, Inc. (KCM). KCM is a provider of contract maintenance alternatives for commercial equipment. In conjunction with the sale, the buyer of KCM agreed to retain its current staff of 36 employees. As part of the transaction, the Company agreed to pay \$850 thousand, comprised of \$500 thousand in cash paid at closing and \$350 thousand placed in a collateral trust (to be drawn down over a nine-month period), for future claims services provided to the Company by KCM for managing the runoff of contractual liability policies issued by the Company and its affiliates. In addition, the agreement allows the Company to receive a profit share from KCM as policies originally issued by the Company and its affiliates are renewed by KCM's new underwriting market, Great American Insurance Companies. The Company realized a gain of \$380 thousand in 2003 as a result of the sale.

Lumbermens Life Agency, Inc.

On September 8, 2003, the Company sold 100% of the capital stock of its wholly owned subsidiary, Lumbermens Life Agency, Inc. (LLA), an Illinois corporation that markets life insurance and annuities through independent agents. The sale included LLA's four subsidiaries and certain assets used in the business as well as the transfer of fourteen employees. The Company realized a gain of \$1.4 million from the transaction in the third quarter of 2003.

Eagle Insurance Companies

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

- A. From KEG, SeaBright acquired 100% of the capital stock of each of two other KEG subsidiaries, Kemper Employers Insurance Company, an Illinois insurance company (KEIC), and PointSure Insurance Services, Inc., a Washington corporation and insurance agency. Immediately before the sale, the Company and KEIC commuted their intercompany reinsurance agreement, with KEIC

NOTES TO FINANCIAL STATEMENTS

reassuming from the Company approximately \$13 million of previously ceded liabilities in return for a cash payment by the Company of the same amount. In connection with the commutation, the Company agreed to reinsure KEIC for any adverse development on pre-closing date KEIC policy liabilities. The Company's claim handling prepayments to NATLSCO (see description of NATLSCO sale above and see Note 1) cover unallocated loss adjusting expenses of approximately \$852,000 for KEIC's pre-closing claims. The Company placed into an eight-year collateral trust \$1.6 million to secure its stop loss reinsurance obligations to KEIC. Following the sale, KEIC changed its name to SeaBright Insurance Company.

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

The purchase price for the two companies, based on preliminary closing date numbers, was \$14.2 million, of which Eagle Pacific's share was \$2.6 million and Pacific Eagle's was \$133 thousand. The purchase agreement provides for purchase price and commutation adjustments based on actual September 30, 2003 financials. The Company has proposed to SeaBright, and recorded in the Company's December 31, 2003 financial statements, approximately \$1 million of adjustments as additional amounts due the Company. In compliance with the purchase agreement, SeaBright is expected to respond to the proposed adjustments in March 2004. The Company's December 31, 2003 surplus includes a \$1.2 million gain on the above transactions with SeaBright.

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

Renewal Rights Transactions

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

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

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

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

Reinsurance Transaction between the Company and AMM

Effective December 31, 2003, the Company and AMM entered into a reinsurance transaction, the results of which included 1) an amendment to the Pooling Agreement that removed AMM from the Pool (see Note 1) and ceded all net liabilities of AMM at December 31, 2003 to the Company and 2) the issuance by the Company of a new insurance policy to each and every policyholder of AMM other than

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those policyholders already fully reinsured by Trinity Universal Insurance Company, a subsidiary of Unitrin, Inc. (Unitrin). In exchange for the issuance of these new insurance policies, AMM incurred an approximate charge of \$229.2 million and the Company recorded income of the same amount for the year ended December 31, 2003. Absent this reinsurance transaction as well as certain accounting allowances granted by the Department of Insurance (see Note 1), the statutory surplus of the Company at December 31, 2003 would have been negative. In turn, AMM's solvency would also be at risk given AMM's significant reliance on its substantial reinsurance recoverables from the Company.

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

The Company assumed most of AMM's liabilities, agreed to perform for AMM all insurance policy-related obligations including handling and paying claims, and issued to each holder of a policy ever issued by AMM, including any policy no longer in force but excluding any policy reinsured by Unitrin, an additional policy which is substantively identical to the policy previously issued by AMM. The additional Company policy assures affected AMM policyholders that their claims will be treated equally with the claims of other Company policyholders not only in the event of a managed run-off of the Company and AMM (see Note 10 and Note 14) but also in the event of any insolvency proceedings with respect to the two companies.

Because the reinsurance transaction was not assumption reinsurance and AMM policies were not novated, the affected policyholders now hold separate policies issued by both AMM and the Company. AMM remains liable for policy liabilities in the event the Company does not comply with all the terms of the affected policies. AMM has \$1.3 billion in reinsurance due from the Company.

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

Berkshire Hathaway Insurance Group

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

History

Effective December 31, 2001, the Company and certain of its insurance company affiliates ("Kemper") entered into an Asbestos and Environmental Loss Portfolio Transfer Agreement (the "A&E Reinsurance Agreement") with National Fire & Marine Insurance Company ("National Fire") and National Indemnity Company ("National Indemnity"), wholly-owned subsidiaries of Berkshire. Under the terms of the A&E Reinsurance Agreement, Kemper ceded to National Fire and National Indemnity, at the rate of 65% of subject losses, \$550.0 million of asbestos, environmental and other mass tort reserves, for \$352.5 million in cash. Kemper also had an option to buy an additional \$50.0 million of coverage for an additional premium of \$8.0 million. This contract at that time resulted in a retroactive reinsurance gain for Kemper increasing then reported statutory surplus by \$197.5 million. In connection with this

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contract, National Fire and National Indemnity assumed administration of the claims settlement process, and in accordance with the terms of the contract, Kemper prepaid \$27.5 million for the claim services and deposited another \$89 million with the claim service provider. As described in the preceding paragraph, on June 20, 2003, the latter amount was returned to Kemper and the A&E Reinsurance Agreement was commuted. The commutation in 2003 resulted in the recognition of a retroactive loss on reinsurance, reducing the Company's statutory surplus by \$197.5 million.

The Company formed Kemper Commercial Insurance Company ("Kemper Commercial") under the insurance laws of the State of Illinois in March 1999 as a wholly owned subsidiary of KIG. On June 28, 2002, three Berkshire affiliates, namely, National Fire, National Indemnity and Columbia Insurance Company (Columbia, and together with National Fire and National Indemnity, the "Berkshire Investor") acquired for \$125.0 million a 15% equity position in KIG plus warrants to acquire an additional 2.5% equity stake in KIG (this June 28, 2002 transaction herein referred to as the "National Fire transaction"). The Company held all of the equity in KIG other than what the Berkshire Investor held. Berkshire and the Berkshire Investor filed with the Department of Insurance a disclaimer of control with respect to Kemper Commercial in June 2002. On June 20, 2003, as mentioned above and further described below, KIG repurchased the minority interest held by the Berkshire Investor.

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

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

In addition to the investment in KIG, as part of the National Fire transaction, Kemper also entered into the AMM Middle Market Multi Line Quota Share Reinsurance Agreement (the "Middle Market QS Agreement") with National Fire effective January 1, 2002. The Middle Market QS Agreement covered business written or renewed related to commercial package, commercial casualty and automobile lines between January 1, 2002 and December 31, 2003 produced through Kemper's middle market profit center. Under the terms of the Middle Market QS Agreement, Kemper ceded 80% of the gross net written premium produced by the profit center in exchange for an 80% quota share participation of subject losses. Kemper also received a ceding commission equal to the lesser of 80% of actual allocated expenses or 30% of premiums ceded to National Fire. As of December 31, 2003, Kemper had ceded to National Fire from inception net written premiums of \$538.1 million and subject losses and loss adjusting expenses of \$338.8 million.

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

The Berkshire Letter of Intent with National Indemnity as amended January 13, 2003 provided Kemper with immediate access to cut-through agreements issued by National Indemnity. The cut-through agreements were applied to certain standard commercial and specialty lines of insurance. This cut-through agreement allows a Kemper insured to directly submit claims to National Indemnity in the event Kemper (as the insurance company which issued the policy) is unable to pay such claims as a result of its insolvency or a court or regulatory order prohibiting claim payments due to the issuing company's financial condition. Cut-through agreements were added to certain policies in-force as of December 23, 2002 and to certain new policies issued on and after December 23, 2002 until September 30, 2003. From inception of the use of the cut-throughs in late December 2002 to

NOTES TO FINANCIAL STATEMENTS

December 31, 2003, Kemper incurred net cut-through agreement fees of approximately \$15.1 million, of which approximately \$6.3 million was incurred by the Company during 2003.

Under the Berkshire Letter of Intent with National Indemnity, Kemper immediately provided collateral available to National Indemnity if and to the extent National Indemnity makes any payments under any cut-through agreements. The collateral includes offset rights granted to National Indemnity for reinsurance proceeds payable by either National Indemnity or National Fire to Kemper or its affiliates; a collateral trust in an amount of approximately \$250.0 million of the invested assets of the parties to the Pooling Agreement as of the end of June 2003 which amount was reduced, by payments of claims (losses and loss adjustment expenses) and mid-term cancellations of policies, to approximately \$206.7 million at December 31, 2003; and an investment of \$257.3 million in Berkshire corporate obligations (Schedule D admitted assets) which the Company and AMM purchased from (and pledged as security to) Berkshire in 2003. If National Indemnity makes no payments under the cut-through agreements, then of the \$257.3 million of pledged obligations, \$100 million matures in March 2025, while the remaining \$157.3 million is subject to mandatory redemption as and when the Company pays claims on policies covered by the cut-through agreements following exhaustion of the assets in the aforementioned collateral trust which must first be applied to such claim payments. The Company projects that at current claim payment rates, the trust assets will be reduced to zero by late 2005 or early 2006.

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

Unitrin, Inc.

Effective June 28, 2002, the Company sold substantially all its renewal rights for its U.S. produced personal lines business to Trinity Universal Insurance Company (Trinity), a subsidiary of Unitrin (Trinity and Unitrin, Inc. are together referred to as "Unitrin"). Unitrin did not acquire renewal rights to policies issued in Alaska, Michigan, Delaware or Arkansas or to policies produced by independent agents whose authority to write new business had been terminated prior to April 19, 2002. The transaction with Unitrin included the transfer of approximately 1,100 employees and the sale of equipment and computer systems which supported the personal lines operations. Unitrin also acquired two of the Company's wholly-owned insurance subsidiaries, Kemper Auto & Home Insurance Company (Kemper Auto & Home) and Kemper Independence Insurance Company (KIIC), which comprised the Kemper Direct operation. Unitrin also obtained a license to use the Kemper name in the acquired businesses for up to five years.

As a result of the transaction, the Company recognized a realized loss of \$523,910 related to the sale of Kemper Auto & Home and KIIC and a realized loss of \$16,481,946 primarily related to the sale of equipment and computer systems. Under the terms of the agreement, Unitrin is obligated to pay the Company a 1% renewal commission for all personal lines premiums written in 2003, 2004 and 2005. During 2003, the Company earned \$7.8 million in renewal commissions, of which \$1.9 million was accrued as a receivable at December 31, 2003.

In connection with the sale, the Company and Unitrin have also entered into administrative service agreements whereby Unitrin continues to monitor and service the Company's run-off of its retained personal lines policies, and the Company and certain of its affiliates agreed to front for Unitrin for a transition period in those states where Unitrin is currently seeking licenses and making form and rate filings necessary for the issuance of Unitrin policies in place of renewals of policies issued by the Company or its affiliates.

Capital Contributions

During 2002, AMICO transferred all of the issued and outstanding common stock of Kemper Warranty Services, Inc. which had a statement value of \$2.6 million and of LGA-3, Inc. which had a statement value of \$86 thousand to the Company.

During 2002, The Company contributed all of the issued and outstanding common stock of Lou Jones and Associates, which had a statement value of \$15.2 million to AMICO.

During 2003 and 2002, the Company made additional capital contributions, or loans treated as equity contributions, to several other of its affiliates primarily to fund cash flow operating needs, as follows:

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	2003	2002
	(in thousands)	
NATLSCO	\$ 140,878	42,414
Kemper International Corporation	1,594	38,448
Specialty National Insurance Company (Specialty National)	-	25,000
Kemper Enterprise Group, Inc.	-	22,500
LGA-1, Inc.	-	14,015
Nekema, Inc.	-	6,765
Kemper Casualty, Inc.	15,971	5,076
Kemper Cost Management, Inc.	2,497	5,129
Kemper Financial Protection, Inc.	456	3,030
Kemper Warranty Services, Inc.	5,323	-
Kemper Employers Group, Inc.	2,506	-
All other	653	2,333
	\$ 169,878	164,710

The Company recorded dividends from the following subsidiaries and affiliates during 2003 and 2002:

	2003	2002
	(in thousands)	
Kemper International Corporation	\$ 13,613	-
American Motorists Insurance Company	12,730	-
NATLSCO	-	32,500
Total	\$ 26,343	32,500

Intercompany Transactions

The Company reported the following amounts due from (to) affiliates at December 31, 2003:

Affiliate	December 31, 2003
American Protection Insurance Company	\$ 23,677,241
Specialty National Insurance Company	15,129,849
American Motorists Insurance Company	5,883,291
Specialty Surplus Insurance Company	2,486,520
Kemper Comprehensive Insurance Company	252,695
RidgeLand Insurance Company	192,241
GreatLand Insurance Company	190,164
Kemper Casualty	48,546
Kemper Indemnity Insurance Company	3,496
Kemper Surplus Lines Insurance Company	2,930
Kemper Lloyds Insurance Company	(43,113)
Pacific Eagle Insurance Company	(2,465,291)
All other affiliates	(1,070,006)
Total receivable from affiliates	\$ 44,288,563

The Company's policy is to settle intercompany balances on a quarterly basis.

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

Guarantees

The Company has guaranteed the minimum capital and surplus requirements under state law for two of its wholly owned, Illinois-domiciled subsidiaries: Kemper Casualty Insurance Company and Specialty National Insurance Company (SNIC). The Company also has guaranteed (a) minimum risk based capital ratios of SNIC, as calculated under its statutory Annual Statement and (b) the obligations under policies issued on or after January 1, 2002 by Kemper, S.A. (Societe Anonyme), a wholly owned insurance subsidiary incorporated under the laws of Belgium. Additionally, during 2003 the Company provided guaranties as required by state insurance regulators for the voluntary dissolutions of the following companies: Kemper Safeguard Surplus Insurance Company, Long Grove Insurance Company, GreatLand Insurance Company, RidgeLand Insurance Company, Kemper Commercial Insurance Company and Kemper Comprehensive Insurance Company.

NOTES TO FINANCIAL STATEMENTS

Impairment Write-downs

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

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

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

11. DEBT

None.

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

A. Employee Retirement Plans

The Company has a non-contributory defined benefit pension plan (Plan A) in which all of its full-time employees with one year of service participate and become fully vested after five years of service. The Company also has a nonqualified supplemental plan which provides additional pension benefits to certain key employees and officers. Effective January 15, 2004, the Company adopted an amendment to freeze both the qualified and nonqualified non-contributory defined benefit pension plans. This freeze triggered a one-time expense related to prior service cost of \$40,179. The Company also has a frozen non-contributory defined benefit pension plan (Plan B) which relates to a previous wholly-owned subsidiary divested in 1998. As previously discussed (see Note 10), the Company sold its claim servicing division (NATLSCO) in July 2003. The sale involved the transfer of approximately 3,300 employees in total of which 1,700 were participants in the Qualified Non-Contributory defined benefit plan which triggered a one-time pension plan curtailment expense of \$160,967.

From November 1, 2000, any newly hired employees of the Company earned benefits under a cash balance plan. The cash balance plan defined an employee's benefit as the amount credited to the employee's account each year. Existing employees of the Company had a one-time election option to either continue to accrue their benefit under the current defined benefit plan or transfer the value of their accrued benefit to the cash balance plan. The cash balance plan was also frozen on January 15, 2004.

The benefits in the defined benefit plan are based on each employee's career-average annual compensation, with an annual benefit accrued based on a percentage of each year's annual compensation. A minimum benefit is provided based on years of service and the employee's compensation during the last five years of employment. The Company's funding policy for its qualified plans is to contribute actuarially determined minimum funding amounts required under the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code (IRC). Company contributions in 2003 to the qualified plan were \$66,332,864. If the liability relief under ERISA and the IRC which expired on 12/31/03 is not extended for 2004, the Company estimates its funding obligations to the qualified plan in 2004 will be \$39,266,322. If the existing relief is extended, the Company's funding obligation in 2004 is estimated to be \$15,364,215. The Company estimates it will distribute approximately \$3,200,000 in 2004 to participants in the non-qualified pension plan.

NOTES TO FINANCIAL STATEMENTS

A summary of the assets, obligations and assumptions of the Company's non-contributory defined benefit pension plans at year-end 2003 are as follows.

	Qualified Pension Plans		Nonqualified	Total
	Plan A	Plan B	Pension Plan	
Accumulated benefit obligation (ABO), November 30, 2003	\$645,000,648	6,335,660	35,097,803	686,434,111
Change in Projected Benefit Obligation During Year				
Benefit obligation, January 1, 2003	\$ 694,976,273	6,549,132	33,139,878	734,665,283
Service cost	18,963,312	0	1,554,595	20,517,907
Interest cost	48,375,701	450,093	2,723,233	51,549,027
Curtailments due to workforce reductions	(36,268,426)	0	(1,244,598)	(37,513,024)
Curtailments due to plan freeze	(3,907,476)	0	(886,825)	(4,794,301)
Actuarial (gain)/loss	(32,264,971)	(309,604)	2,032,183	(30,542,392)
Benefits paid	(44,751,232)	(353,961)	(2,213,995)	(47,319,188)
Benefit obligation, November 30, 2003	\$ 645,123,181	6,335,660	35,104,471	686,563,312
Change in Plan Assets During Year				
Plan assets at fair value, January 1, 2003	\$ 432,300,210	6,087,499	0	438,387,709
Return on plan assets	62,639,563	883,618	0	63,523,181
Company contributions	66,332,864	0	2,213,995	68,546,859
Benefits paid	(44,751,232)	(353,961)	(2,213,995)	(47,319,188)
Plan assets at fair value, November 30, 2003	\$ 516,521,405	6,617,156	0	523,138,561
Reconciliation of Prepaid/(Accrued) Benefit Cost				
Funded status of the plan	\$(128,601,776)	281,496	(35,104,471)	(163,424,751)
Unrecognized:				
Transition asset	(45,621,986)	(3,587,067)	0	(49,209,053)
Prior service cost	0	0	0	0
Net loss	239,463,453	4,325,317	4,774,319	248,563,089
Prepaid/(Accrued) benefit cost, November 30, 2003	65,239,691	1,019,746	(30,330,152)	35,929,285
Contributions paid between December 1 and December 31, 2003	0	0	184,500	184,500
Prepaid/(Accrued) benefit cost, December 31, 2003	\$ 65,239,691	1,019,746	(30,145,652)	36,113,785

NOTES TO FINANCIAL STATEMENTS

	Qualified Pension Plans		Nonqualified	Total
	Plan A	Plan B	Pension Plan	
Expense for 2003				
Service cost	\$18,963,312	0	1,554,595	20,517,907
Interest cost	48,375,701	450,093	2,723,233	51,549,027
Expected return on assets	(57,598,051)	(779,820)	0	(58,377,871)
Amortization of unrecognized:				
Transition asset	(13,742,545)	0	0	(13,742,545)
Prior service cost	17,826	0	0	17,826
Net loss	3,983,757	17,959	746,475	4,748,191
Net periodic benefit cost	0	(311,768)	5,024,303	4,712,535
One-time expense	269,344	0	0	269,344
Total expense	269,344	(311,768)	5,024,303	4,981,879
Less amounts allocated to AMM				(398,550)
Amount retained by the Company				4,583,329
Obligation for Active Nonvested Employees, November 30, 2003	\$ 1,188,621	0	1,194,498	2,383,119

The discount rate used in determining the plan's benefit obligations was 7.5% for all plans. The long-term rate of return used on the plan's assets was 8.5% for all plans. The average salary increase was 4.0% for Plan A and the non-qualified pension plan.

The Company is required to accrue for a minimum pension liability when the qualified pension plans' accumulated benefit obligation (ABO) exceeds the market value of the qualified pension plans' assets. The Company has recorded the following minimum pension liabilities directly to surplus as of December 31, 2003 and 2002 as follows:

		2003		2002
ABO	\$	651,617,804	\$	664,163,443
Market value of plan assets		(523,138,561)		(438,387,709)
Minimum pension liability		128,479,243		225,775,734
Less amounts accrued in previous years		225,775,734		(52,959,000)
Change in minimum pension liability charged directly to surplus	\$	(97,296,491)	\$	172,816,734

If the minimum funding liability relief which was scheduled to expire on December 31, 2003, is not extended for 2004, the Company anticipates making approximately \$39 million in contributions to the plan in 2004. If the prior relief is extended by congress the Company's funding to the plan in 2004 is estimated to be approximately \$15 million.

B. Deferred Compensation Plans

The Company has a profit sharing plan for its officers and employees.

Restricted Stock and Stock Option Plans

In late 2002, the restricted stock and stock option plans that had been established at certain Company subsidiaries in prior years for key officers and employees of those subsidiaries and certain executive officers of the Company were terminated. Based on values of the underlying shares of stock established in early 2003, \$3,114,885 of compensation expense was incurred by the respective subsidiaries during 2003. This expense at the respective subsidiaries reduced, by the same amount, the Company's statutory surplus by reducing its reported investment in subsidiaries. The remaining unvested amount at December 31, 2003 is \$3,950,876, of which \$1,502,155 vested January 1, 2004 and would be payable in early 2004 and \$2,448,721 would be payable in early 2005 (see Note 22). The 2004 vested but unpaid amount is accrued at the respective subsidiaries, which reduced the Company's December 31, 2003 surplus by the same amount.

C. Postretirement Benefits

The Company provides non-pension retirement benefits consisting of certain health care benefits and life insurance for retired employees. The Company is self-insured. The cost of the health care benefit is borne jointly by the Company and its employees at varying percentages depending on the age and service of the plan participant. Effective January 1, 2003, the Company placed a cap on the

NOTES TO FINANCIAL STATEMENTS

level of subsidy provided by the Company to its retirees. For all current and future groups who receive subsidized coverage, the Company costs were capped at 120% of the 2003 subsidy levels. In addition, effective January 1, 2004, the Company (i) changed its funding policy for post-retirement medical, shifting more of the annual costs to the retiree while reducing the amount the Company pays for post retirement medical, and (ii) changed its eligibility requirements for post retirement medical so only active employees age 55 or older as of January 1, 2004 with ten or more years of service with the Company are eligible for medical benefits at retirement. The impact of the change reduces the prior service cost at December 31, 2003. The Company obtained the approval of the Department of Insurance to account for the changes implemented as of January 1, 2004 as a permanent curtailment of the benefit, allowing the Company to reduce its prior service cost at December 31, 2003 from \$64,088,727 to \$32,297,407 (see Note 1A).

A summary of the obligations and assumptions of the non-pension retirement benefit plan at year-end 2003 is as follows:

	Fiscal 2003		
	Retiree Medical	Retiree Life Insurance	Total
Change in Benefit Obligation During the Year			
Benefit obligation, January 1, 2003	\$129,458,986	13,797,395	143,256,381
Service cost	1,713,834	0	1,713,834
Interest cost	6,084,557	948,188	7,032,745
Plan amendments	(98,874,252)	0	(98,874,252)
Actuarial (gain)/loss	7,261,414	(465,974)	6,795,440
Benefits paid	(10,825,000)	(1,070,000)	(11,895,000)
Benefit obligation, November 30, 2003	\$ 34,819,539	13,209,609	48,029,148
Reconciliation of Accrued Benefit Cost			
Funded status of the plan	\$(34,819,539)	(13,209,609)	(48,029,148)
Unrecognized:			
Transition obligation	0	8,834,399	8,834,399
Prior service cost	(32,297,407)	0	(32,297,407)
Net (gain) loss	33,883,946	(1,522,513)	32,361,433
Accrued benefit cost, November 30, 2003	(33,233,000)	(5,897,723)	(39,130,723)
Contributions paid between December 1 and December 31, 2003	902,083	89,167	991,250
Accrued benefit cost, December 31, 2003	\$(32,330,917)	(5,808,556)	(38,139,473)
Expense for 2003			
Service cost	\$ 1,713,834	0	1,713,834
Interest cost	6,084,557	948,188	7,032,745
Expected return on assets	0	0	0
Amortization of unrecognized:			
Transition obligation	0	631,029	631,029
Prior service cost	(630,254)	0	(630,254)
Net loss	1,690,136	0	1,690,136
Net periodic benefit cost	\$ 8,858,273	1,579,217	10,437,490
Less amounts allocated to AMM			(834,999)
Amount retained by the Company			9,602,491
Obligation for Active Nonvested Employees, November 30, 2003	0	0	0
Key Assumptions, Year-end 2003			
Discount rate for obligations	7.50%	7.50%	7.50%
Discount rate for expense	7.00%	7.00%	7.00%
Health care trend rate	9.0% grading to 6.0% in 2006	N/A	9.0% grading to 6.0% in 2006
Impact of 1% Change in Assumed Health Trend Rate		1% Increase	1% Decrease
Effect on service cost and interest cost	\$	550,065	(515,063)
Effect on postretirement benefit obligation		2,115,506	(1,983,251)

NOTES TO FINANCIAL STATEMENTS

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

At December 31, 2003, unassigned surplus was reduced by nonadmitted asset values primarily related to deferred taxes and other assets of \$783,462,795 and an unrealized foreign exchange loss of \$12,602,499.

The Company has the following surplus notes issued and outstanding at December 31, 2003:

Interest Rate/ Description	Issue Date	Maturity Date	<i>Amounts in thousands</i>				
			Par or Face Value	Carrying Value of Notes	Interest Paid 2003	Total Interest Paid	Accrued Interest 12/31/03
9.15% 30-Year Notes	06/24/96	07/01/2026	\$400,000	\$399,123	\$ 0	\$220,312	\$ 0
8.30% 40-Year Notes	11/21/97	12/01/2037	200,000	199,507	0	83,461	0
8.45% 100-Year Notes	11/21/97	12/01/2097	100,000	99,726	0	42,485	0
Total			\$700,000	\$698,356	\$ 0	\$346,258	\$ 0

The unamortized discount at issuance has been charged against surplus. The unamortized discount amounted to \$1,644,402 at December 31, 2003 and 2002.

All surplus notes were issued pursuant to Rule 144A of the Securities Act of 1933. The Fiscal Agent for all surplus notes is BNY Midwest Trust Company, Chicago, Illinois. Any payments of principal and interest are to be made by the Company through the Fiscal Agent or The Depository Trust Company, New York, New York. All surplus notes are unsecured and subordinated to all present and future indebtedness, policy claims, and prior claims of the Company. The surplus notes are not entitled to a sinking fund. The Company is not restricted from incurring any future indebtedness, policy claims or prior claims. Under statutory accounting, the surplus notes are not part of the legal liabilities of the Company. The 30-Year Notes and the 40-Year Notes may not be redeemed at the option of the Company or any holder of the notes prior to maturity. Upon the occurrence and during the continuation of certain events, as described in the related Offering Circular, the Company has the right, if certain conditions are met, to shorten the maturity of the 100-Year Notes; or, subject to the prior written approval of the Director of the Department of Insurance (the Director), redeem them in whole but not in part.

Each payment of interest on and repayment of principal of the surplus notes may be made only with the prior approval of the Director, which approval will only be granted if, in the judgment of the Director, the financial condition of the Company warrants the making of such payments and the Company's policyholders' surplus reflects sufficient funds to cover the amount of such payment. In addition, any payment of interest on or repayment of principal or redemption of the surplus notes would reduce the policyholders' surplus of the Company. On March 20, 2003 and November 3, 2003, the Director of the Illinois Department of Insurance denied the Company's requests for payment of interest on the surplus notes due on June 1 and July 1, 2003 and on December 1, 2003 and January 1, 2004 (see Note 14). The amount of interest due and not paid during 2003 plus interest that is not accrued for at December 31, 2003 is \$61,650,000.

NOTES TO FINANCIAL STATEMENTS

14. CONTINGENCIES

A. Contingent Commitments

Capital Commitments

Pursuant to certain investment partnership agreements, the Company could be obligated to contribute capital up to specified limits upon the occurrence of the events specified in such commitments. The total of all such commitments at December 31, 2003 was \$35.0 million. In early 2004, the Company is negotiating definitive agreements to sell such investments for a purchase price of approximately \$49.2 million and transfer all of the related commitments to an unaffiliated third party. The Company currently expects to close the transaction by the end of the second quarter of 2004. The Company remains obligated to fund such capital commitments if such transaction fails to reach definitive agreement or to close. The purchaser would be obligated to reimburse the Company at closing for any commitments funded prior to the closing.

Subsidiary Guarantees

The Company has guaranteed the minimum capital and surplus requirements under state law for two of its wholly owned, Illinois-domiciled, subsidiaries: Kemper Casualty Insurance Company and SNIC. The Company has also guaranteed (a) minimum risk based capital ratios of SNIC, as calculated under its statutory Annual Statement and (b) the obligations under policies issued on and after January 1, 2002 by Kemper, Societe Anonyme, a wholly owned subsidiary incorporated under the laws of Belgium. Additionally, during 2003, the Company provided guarantees as required by state insurance regulators for the voluntary dissolutions of the following companies: Kemper Safeguard Surplus Insurance Company, Long Grove Insurance Company, GreatLand Insurance Company, RidgeLand Insurance Company, Kemper Commercial Insurance Company and Kemper Comprehensive Insurance Company.

Securities on Deposit/Encumbered Assets

Approximately \$1.7 billion of the Company's invested assets at December 31, 2003 are encumbered by being on deposit or held in trust or escrow arrangements. The majority of the encumbrances are deposits with state insurance departments, approximately \$1.0 billion, with California accounting for the majority of that amount, or \$827.9 million. The Company's run-off plan anticipates reducing these amounts significantly as reserves are reduced to augment its liquidity needs in 2004 and subsequent years, but there are significant uncertainties with respect to the legal and regulatory issues related to releases of encumbered assets.

Approximately \$478.1 million of the Company's assets at December 31, 2003 are in a collateral trust for the benefit of or are otherwise pledged to Berkshire affiliates. See Note 10.

Approximately \$25 million of the Company's assets at December 31, 2003 are in a collateral trust for the benefit of NATLSCO as collateral for obligations under the transaction agreements related to the sale of NATLSCO in July 2003. Other transaction-related collateral trusts and escrow arrangements encumber another \$30.0 million of the Company's assets at December 31, 2003. See Note 10.

The Company, as an assuming reinsurer on business written by the Company's Equus Re division prior to its sale in late 1999, has deposited approximately \$45 thousand in cash with a reinsured company as security under certain reinsurance agreements. In addition, the Company is contingently liable to post up to an estimated additional \$23.9 million in collateral due to ratings triggers in similar reinsurance agreements where it is a reinsurer. Of this amount, approximately \$12.5 million has been funded with assets of the purchaser of the Equus Re division for business written by the Company after the 1999 sale which is 100% reinsured by the purchaser.

As of December 31, 2003, a wholly owned subsidiary, AMPICO as successor by merger to Eagle Pacific has deposited with four of its reinsureds AMPICO assets in the approximate amount of \$9.8 million as security under assumed reinsurance agreements dating back to before the Company acquired the Eagle subsidiary in 1998. Until November and December 2003, the security was in the form of letters of credit; however, when those letters of credit expired in late 2003, the subsidiary and the Company were unable to obtain letters of credit from any banks due to the Company's deteriorating financial condition. Of the \$9.8 million assets on deposit, the reinsured is informally disputing the amount, seeking an increase of up to another \$6.0 million.

The Company has deposited securities with a carrying value of \$22.0 million at December 31, 2003 in an escrow account to collateralize a bank loan to an independent agent. In late 2003, the Company recognized a \$15.0 million charge related to this guarantee.

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Approximately \$27.9 million of the Company's invested assets at December 31, 2003 are in collateral trusts for the benefit of its reinsurers as of December 31, 2003. See Note 23.

Where required to post court bonds, including supersedeas or appeal bonds, the Company, due to its financial condition, has had to post cash or other security totaling in most cases 100% of the bond. At December 31, 2003, the Company had pledged approximately \$27.1 million for bonds, a majority of which are issued by a Berkshire affiliate.

B. Guaranty Fund and Other Assessments

The Company is liable for guaranty fund assessments related to certain unaffiliated companies that have become insolvent during the years 2003 and prior. The Company's financial statements include provisions for all known assessments that are expected to be levied against the Company as well as an estimate of amounts (net of estimated future premium tax recoveries) that the Company believes it will be assessed in the future for which the insurance industry has estimated the cost to cover losses to policyholders. The Company is also contingently liable for any future guaranty fund assessments related to insolvencies of unaffiliated insurance companies, for which the insurance industry has been unable to estimate the cost to cover losses to policyholders. No specific amount can be reasonably estimated for such insolvencies as of December 31, 2003. As of December 31, 2003, the Company has accrued a liability of approximately \$11.3 million for such assessments. In 2003, the Company also wrote off a previously recorded receivable of \$1.4 million for future premium tax offsets related to such assessments. The Company has established a liability for premium and loss based assessments of approximately \$49.8 million as of December 31, 2003.

C. Gain Contingencies

None.

D. All Other Contingencies

Ratings

Beginning on December 20, 2002, the Company's claims-paying ability/financial strength ratings were lowered by all three of the major rating agencies. At that time, A.M. Best lowered the Company's rating to below A-; currently, A.M. Best assigns 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- effectively ended the Company's and its affiliates' ability to write most new commercial lines business or retain existing policyholders. In early 2003, the Company attempted to continue marketing commercial insurance policies by providing certain of the policies with the benefit of cut-through agreements from National Indemnity Company. That proved unsuccessful. In the first half of 2003, therefore, as a result of a combination of various business factors including the ratings downgrades and the Company's deteriorating statutory surplus, the Company substantially ceased underwriting activities other than as required by contract or law and except for its Eagle insurance subsidiaries which ceased as of September 30, 2003 and its Mexican insurance company subsidiary which is subject to a definitive agreement to be sold on or before April 30, 2004.

Since July 2003, the Company and most of its affiliates have been subject to a Corrective Order by the Department of Insurance not to write any new or renewal business except as necessary to comply with contractual commitments or as expressly permitted by the Department. The only remaining contractual commitment of the Company is to allow Unitrin to continue to use Kemper as the direct insurer (100% reinsured by the Unitrin affiliate) until said entity obtains its own licenses in all the jurisdictions where it is not currently licensed, which is anticipated to be completed in 2004. In connection with the downgrades and the decision to move to run-off status, the Company determined that certain lines of business would, to the extent possible, be discontinued, sold or subject to renewal rights transactions.

Risk-Based Capital and Risk of Insolvency

The NAIC utilizes a risk-based capital ("RBC") formula intended for regulatory monitoring of property-casualty insurers. Under risk-based capital rules in Illinois, state regulators may mandate remedial action for inadequately capitalized companies. The focus of the capital rules is a risk-based formula that applies prescribed factors to various risk elements in an insurer's business and investments to develop a minimum capital requirement designed to be proportional to the amount of risk assumed by the insurer. As of December 31, 2003, the Company's level of capital and surplus is at the "mandatory control level" under the risk-based capital rules. At this level, the Department of Insurance has substantial authority to exercise control over the Company and its

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affiliates. The Department of Insurance is mandated to place a company at this level under its control, except where, as is the case with the Company, such company is a property and casualty insurance company that is no longer writing new business and is running off its existing business, in which case the Director of the Department of Insurance has discretion to allow the continued run-off. Exercising its supervisory authority, the Department has issued Corrective Orders. As required, the Company in early 2003 proposed an RBC plan to address its RBC level. The Department of Insurance did not accept that plan, but is expecting the Company to develop a commercial run-off plan based on the Company's results and financial condition at December 31, 2003.

The Company is currently developing its commercial run-off plan under the direction of new management headed by Michael A Coutu, founder, chairman and chief executive officer of Kenning Financial Advisors, LLC ("Kenning"). The Company and Kenning entered into a long-term Engagement Agreement dated October 1, 2003 under which Mr. Coutu began serving as acting president and chief executive officer of the Company in November. As an independent contractor subject to the direction of the Company's board of directors as provided in the Engagement Agreement, Kenning acts as the Company's and its affiliates' financial and management consultant to develop, modify, implement and execute the run-off plan. Under the Engagement Agreement, which was approved by the Department of Insurance, Mr. Coutu's duties include overall operational responsibility for all business of the Company and its affiliates. The Engagement Agreement anticipates the full-time services of three and one-half Kenning professionals for a base fee of \$375,000 per month and the negotiation of a performance compensation plan to be based on successfully reaching targets within the commercial run-off plan still under development. The Engagement Agreement further provides for the indemnification of Kenning by the Company and the establishment of an indemnification trust in the amount of \$10 million.

The Department of Insurance could seek to place the Company in a formal proceeding (receivership, rehabilitation, or other) at any time based on the Company's current financial condition. This risk of a proceeding would be further exacerbated if the Company fails to propose a plan which the Department of Insurance accepts, or if the Company subsequently fails to execute successfully on that plan, or if the Company fails to have sufficient liquid assets to meet its current obligations, or if the Company's reported statutory liabilities at any time would exceed its reported statutory assets.

Regarding the latter risk, the Company's current discounting of all its loss and loss adjustment expense reserves at 4.2%, as permitted by one of its accounting allowances (see Note 1), substantially exceeds its currently projected 3.1% investment portfolio yield. The 3.1% yield reflects management's recent revised judgments relating to elements of the developing run-off plan including, among other factors, requirements to avoid substantial credit risk and to match duration of investments to anticipated rates and amounts of claim payments over time. The difference between discount at the higher rate versus discount at 3.1% is approximately a \$213 million surplus improvement as of December 31, 2003. Further, amortization of the discount is anticipated to significantly exceed investment income, which will strain the Company's surplus position at a time when expenses will also exceed income. The Company's to-be-proposed run-off plan will include initiatives for the purpose of offsetting these projected surplus deficiencies, particularly in years 2005 and 2006. However, there can be no assurance that the Company will be successful to the extent necessary to avoid a negative surplus in future years.

Other

Various lawsuits against the Company have arisen in the course of the Company's business and following the movement of the Company into run-off status.

As described in Note 13, Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations, the Company issued \$700 million in aggregate principal amount of surplus notes in 1996 and 1997. On March 20, 2003 and November 3, 2003, the Director of the Illinois Department of Insurance denied the Company's requests for payment of interest on the surplus notes due on June 1 and July 1, 2003 and on December 1, 2003 and January 1, 2004. Subsequent payments of interest on the surplus notes have also been prohibited by the Director. Following the March 20, 2003 denial, in June and July, 2003, several lawsuits were filed in the Circuit Court of Cook County, Illinois by certain current holders of surplus notes aggregating approximately \$368 million and naming the Company, various directors or former directors of the Company and Kemper Commercial Insurance Company, a subsidiary of the Company, as defendants. In January, 2004, a purported class action lawsuit on behalf of all persons who purchased surplus notes between 1996 and March 2003 was also filed in the Circuit Court of Cook County against the Company, various directors of the Company and Kemper Commercial Insurance Company. These lawsuits allege 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

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entities to assume the Company's surplus notes or obtaining the consent of a majority of the holders of the surplus notes. The complaints further allege that the directors breached their fiduciary duties and committed corporate waste, and that the Company and Kemper Commercial engaged in a fraudulent conveyance. The complaints, among other things, seek a declaratory judgment of the parties' rights, an injunction against further asset sales and monetary damages. The class action complaint also alleges that Kemper Commercial intentionally interfered with the contractual relationships between the Company and the surplus noteholders. To date, only one of the complaints has been served upon the Company and the Company moved to dismiss that complaint. Following the filing of that motion, the plaintiffs stated their intention to file an amended complaint but have not yet done so. The Company has not yet been required to file a motion to dismiss or answer with respect to the other complaints. The Company intends to vigorously defend against these lawsuits.

Contingent liabilities arising from other litigation, income tax and other matters are not currently considered material in relation to established reserves, anticipated insurance and reinsurance recoverables and the financial condition of the Company, but there can be no assurance that such matters will not become material due to future developments, including in the financial condition of the Company.

15. LEASES

The Company leases office space and equipment under various non-cancelable operating lease agreements. Rental expense for 2003 and 2002 was \$23,961,783 and \$22,853,014, respectively, net of costs shared by the Company with AMM under the terms of the Pooling Agreement.

At December 31, 2003, the total aggregate minimum rental payments on operating leases is \$88,586,627 and future minimum rental payments for the next six years are as follow:

(Dollars in thousands)

Year Ending December 31		Minimum Payments
2004	\$	28,529
2005		19,650
2006		14,364
2007		10,176
2008		7,863
2009 and thereafter		8,005
	\$	88,587

Certain rental commitments have renewal options extending through the year 2022. Some of these renewals are subject to adjustments in future periods.

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

None.

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

Securities Lending Transactions

The Company participates in a securities lending program whereby certain stocks and bonds were loaned to third parties, primarily major brokerage firms. In accordance with agreements with the custodian bank facilitating such lending, collateral with a fair value at least equal to 102% of the fair value of the loaned securities is required when securities are loaned and additional collateral is required if the fair value of the collateral drops below 100% during the term of the loan. To further minimize the credit risks related to this lending program, the Company monitors the financial condition of counterparties to these agreements. Securities loaned at December 31, 2003 had carrying values and fair values of less than \$1 thousand. Cash, which is not available for the general use of the Company, was held by the custodian bank as collateral at December 31, 2003.

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

None.

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

None.

NOTES TO FINANCIAL STATEMENTS

20. SEPTEMBER 11 EVENTS

The terrorist attacks of September 11, 2001 (the September 11 events) resulted in a tremendous loss of life and property. In the past, insurance companies have incurred losses as a result of catastrophes such as earthquakes, hurricanes, and even other terrorist attacks. However, the September 11 events are unprecedented in the United States in terms of the magnitude of the losses incurred and the number of entities affected. For the year ended December 31, 2003, the Company's total incurred losses and LAE related to the September 11 events were as follows:

Gross losses and LAE incurred	\$	270,263,546
Reinsurance losses and LAE ceded		(223,612,341)
Net losses and LAE incurred		46,651,205
Less amounts allocated to AMM per Pooling Agreement		(3,732,096)
Net amount incurred by the Company	\$	42,919,109

The incurred losses are primarily attributable to the commercial multiple peril and other liability lines of business. As of December 31, 2003, the Company has recovered a total of \$140,478,000 from its reinsurers, against \$176,579,000 in total claim payments. As of December 31, 2003, approximately 62% of the Company's unsecured recoverables from all reinsurers, excluding the Company's participation in third-party pools, were from reinsurers rated A or better by A. M. Best Company or Standard & Poor's. Approximately 76% of the unsecured recoverables from reinsurers were rated A- or better by A. M. Best Company or Standard & Poor's. The Company continues to closely monitor its exposure to all reinsurers.

21. OTHER ITEMS

Reconciliation of 2002 Audited Statutory Financial Statement to 2002 Annual Statement

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

	\$	Net loss	Total surplus
As filed in 2002 Annual Statement		(205,919,979)	696,846,043
Adjustments related to:			
Market value declines identified subsequent to year-end resulting in other-than-temporary impairment of securities:			
Bonds		(10,563,044)	(9,951,907)
Equity securities		(7,227,150)	(7,227,150)
Other-than-temporary impairments or adjustments related to new facts, circumstances or decisions made by the Company:			
Market for sale certain office buildings previously occupied by the Company		(25,510,259)	(25,510,259)
Abandonment of plans for water development joint venture project		(29,346,776)	(15,141,303)
Change in agreement with internet joint venture partners		(10,095,450)	(10,095,450)
Termination of letter of intent to sell subsidiary resulting in goodwill impairment		—	(5,976,869)
Effects of terminating the surplus note tender offer on admissibility of deferred tax assets		—	(86,369,468)
Other adjustments:			
Revenue recognition adjustment at NATLSCO		—	(72,892,000)
Overaccrual related to incentive compensation		10,280,198	10,280,198
Misapplication of facts related to receivables		(10,588,085)	(10,588,085)
Nonadmitted deferred premiums receivable		—	(30,800,000)
Equity pick-up for AMICO related to AMICO's share of pooled adjustments and other items		—	(19,453,353)
As per accompanying financial statements	\$	(288,970,545)	413,120,397

NOTES TO FINANCIAL STATEMENTS

The Company has recorded the above adjustments during 2003. Accordingly, these adjustments are included within the Company's 2003 Annual statement.

22. EVENTS SUBSEQUENT

On February 5, 2004, the Company announced that its filing of a run-off plan with the Department of Insurance was delayed due to the need for the Company to complete its December 31, 2003 financial statements. As part of that announcement, the Company informed its employees that enhanced compensation payments would be suspended pending filing of the financial statements and approval of the run-off plan. Enhanced compensation payments include payments under subsidiary restricted stock and stock option plans (see Note 12), annual and stay bonuses, and certain guaranteed termination payments, and any severance payments in excess of the Company's standard severance policies. If and when the Department of Insurance approves the run-off plan, the Department of Insurance will then decide whether enhanced compensation payments will be made. The unpaid amount in suspension as of the end of February 2004 is estimated to be \$9 million.

23. REINSURANCE

A. Unsecured Reinsurance Recoverables

All reinsurance recoverables between the Company and its affiliates are unsecured. The Company has unsecured aggregate recoverables from outside reinsurers for losses paid, losses unpaid, loss adjustment expenses, and unearned premium that exceed 3% of the Company's policyholder surplus with the following reinsurers (and related group members):

FEIN CODE	NAIC GROUP #	NAIC CODE	REINSURER	AGGREGATE RECOVERABLE (000 omitted)
36-0719665	8	19232	Allstate Insurance Co.	\$ 14,718
			8 Group Total	14,718
13-5124990	12	19380	American Home Assurance Co.	262
06-0384680	12	11452	Hartford Steam Boil Inspec & Ins Co.	8,655
25-0687550	12	19445	National Union Fire Ins Co of Pittsburgh	2,148
13-3333610	12	35157	Putnam Reinsurance Co.	21
13-5616275	12	19453	Transatlantic Reinsurance Co.	65,843
			12 Group Total	76,929
06-0949141	31	33197	Cologne Reinsurance Co. of America	23
13-2673100	31	22039	General Reinsurance Corp.	202,784
47-6021331	31	20079	National Fire & Marine Insurance Co.	249,552
47-0355979	31	20087	National Indemnity Co.	221
13-1988169	31	34835	National Reinsurance Corp.	452
			31 Group Total	453,032
38-0855585	79	22012	Motors Insurance Corp.	13,844
			79 Group Total	13,844
06-0383750	91	19682	Hartford Fire Insurance Co.	23,216
			91 Group Total	23,216
47-0574325	98	32603	Berkley Insurance Co.	29,229
53-0067060	98	21784	Firemens Ins Co. of Washington DC	314
41-1232071	98	31003	Tri State Insurance Co. of Minnesota	173
			98 Group Total	29,716
39-0264050	111	21458	Employers Insurance of Wausau	8,935
04-1543470	111	23043	Liberty Mutual Insurance Co.	1,014
			111 Group Total	9,949
22-1964135	158	21105	North River Insurance Co.	61
47-0698507	158	23680	Odyssey America Reinsurance Co.	10,930
13-2781282	158	25070	Odyssey Reinsurance Corp.	46,794
			158 Group Total	57,785

NOTES TO FINANCIAL STATEMENTS

FEIN CODE	NAIC GROUP #	NAIC_CODE	REINSURER	AGGREGATE RECOVERABLE (000 omitted)
42-1091525	164	35386	Fidelity & Guaranty Insurance Co.	\$ 0
41-0406690	164	24767	St Paul Fire & Marine Insurance Co.	26,933
52-0515280	164	25887	United States Fidelity & Guaranty Co.	660
			164 Group Total	27,593
13-1675535	181	25364	Swiss Reinsurance America Corp.	320,331
06-0839705	181	82627	Swiss Re Life & Health America Inc.	5,829
16-0366830	181	22314	Underwriters Reinsurance Co.	16,383
			181 Group Total	342,543
75-0620550	215	19887	Trinity Universal Insurance Co.	250,995
13-5460208	215	25909	Unitrin Preferred Insurance Co.	0
			215 Group Total	250,995
36-2114545	218	20443	Continental Casualty Co.	36,242
13-5010440	218	35289	Continental Insurance Co.	14
36-3976913	218	10071	Encompass Insurance Co. of America	884
			218 Group Total	37,140
23-1620930	229	12319	Philadelphia Reinsurance Corp.	3,289
41-0451140	229	67105	Reliastar Life Insurance Co.	15,072
			229 Group Total	18,361
48-0921045	350	39845	Employers Reinsurance Corp.	75,601
36-2667627	350	22969	GE Reinsurance Corp.	177,729
13-1941868	350	34207	Westport Insurance Corp	603
			350 Group Total	253,933
13-4924125	361	10227	American Re-Insurance Co.	384,458
			361 Group Total	384,458
74-0484030	408	60739	American National Insurance Co.	7,082
			408 Group Total	7,082
36-3030511	517	37257	Insurance Corp. of Hanover	8,348
			517 Group Total	8,348
13-3071466	604	41343	Gerling America Insurance Co.	66
13-5009848	604	21032	Gerling Global Rein Corp of America	25,908
13-6107326	604	11266	Gerling Global Reinsurance Corp. - U.S.	4
			604 Group Total	25,978
95-2371728	626	22667	Ace American Insurance Co.	335
23-1740414	626	22705	Ace American Reinsurance Co.	3,482
06-0237820	626	20699	Ace Property & Casualty Insurance Co.	4,585
23-0723970	626	22713	Insurance Co. of North America	18,056
			626 Group Total	26,458
13-3029255	749	39322	General Security National Ins Co.	7,799
75-1444207	749	30058	SCOR Reinsurance Co.	44,659
			749 Group Total	52,458
				AGGREGATE

NOTES TO FINANCIAL STATEMENTS

<u>FEIN CODE</u>	<u>NAIC GROUP #</u>	<u>NAIC CODE</u>	<u>REINSURER</u>	<u>RECOVERABLE (000 omitted)</u>
13-3594502	968	33022	AXA Corporate Solutions Insurance Co.	\$ 474
36-2994662	968	36552	AXA Corporate Solutions Reinsurance Co.	556
04-1590940	968	11835	AXA Re America Insurance Co.	11,052
04-2482364	968	16187	AXA Reinsurance Property & Casualty Insurance Co.	86
			968 Group Total	12,168
22-2005057	1120	26921	Everest Reinsurance Co.	39,328
			1120 Group Total	39,328
59-2048400	1125	39152	American Healthcare Indemnity Co.	10,202
			1125 Group Total	10,202
04-1027270	1129	20613	American Employers Insurance Co.	583

NOTES TO FINANCIAL STATEMENTS

13-2997499	1129	38776	Folksamerica Reinsurance Co.	8,900
			1129 Group Total	9,483
43-0990710	1279	11150	Arch Insurance Co.	7,430
06-1430254	1279	10348	Arch Reinsurance Co.	6,343
			1279 Group Total	13,773
13-1290712	1285	20583	XL Reinsurance America Inc.	37,361
			1285 Group Total	37,361
13-5339725	1314	18341	Insurance Corp. of New York	303
06-1117063	1314	34894	Trenwick America Reinsurance Corp.	74,163
			1314 Group Total	74,466
06-1325038	3018	39136	Converium Rein (North America) Inc.	114,992
			3018 Group Total	114,992
43-6028696	3321	22217	Gulf Insurance Co.	6,373
41-6009967	3321	24015	Northland Insurance Co.	3,187
06-0566050	3321	25658	Travelers Indemnity Co.	1,521
			3321 Group Total	11,081
13-3031176	3483	38636	Partner Reinsurance Co of the U.S.	8,473
13-3531373	3483	10006	PartnerRe Insurance of New York	(225)
			3483 Group Total	8,248
AA-9995013			Associated Aviation Underwriters	192,164
06-1206728		29807	PXRE Reinsurance Co.	51,049
44-0367450		66559	National Fidelity Life Insurance Co.	47,642
AA-9992118			National Workers Compensation Reinsurance Pool	42,196
AA-9991444			Texas Workers Compensation Pool	36,352
AA-3190450			Patriot Insurance Co Ltd.	26,599
AA-9995022			Excess & Casualty Reinsurance Assn. (ECRA)	24,982
AA-1122000			Lloyd's of London (Authorized)	22,730
AA-9991160			New Jersey Unsatisfied Claim & Judgment Fund	14,333
<u>FEIN CODE</u>	<u>NAIC GROUP #</u>	<u>NAIC_ CODE</u>	<u>REINSURER</u>	<u>AGGREGATE RECOVERABLE (000 omitted)</u>
AA-1340125			Hannover Ruckversicherungs AG	\$ 12,038
13-2918573		42439	TOA-Reinsurance Co. of America	10,783
AA-1128020			Lloyd's Syndicate Number 2020	9,590
41-1357750		10181	Workers Compensation Reinsurance Assn.	9,242
AA-9995035			Mutual Reinsurance Bureau	6,989
36-3155373		40398	American Fuji Fire & Marine Insurance Co.	6,943
23-2745904		10019	Overseas Partners U.S. Reinsurance Co.	6,583
Total Aggregate Reinsurance Recoverables in excess of 3% of the Company's Surplus				\$ 2,965,853

NOTES TO FINANCIAL STATEMENTS

B. Reinsurance Recoverable in Dispute

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

Name of Reinsurer	Total Amount in Dispute (including IBNR)	Notification	Arbitration	Litigation
Patriot Insurance Co. Ltd.	\$ 39,307,532	0	0	39,307,532
PXRE Reinsurance Co.	29,100,000	0	0	29,100,000
Transatlantic Reinsurance Co.	13,772,012	7,392,391	6,379,621	0
Front Range Insurance Co.	12,957,555	0	0	12,957,555
Swiss Reinsurance America Corp.	11,501,820	11,501,820	0	0
Hartford Steam Boil & Inspection Co.	7,201,299	7,201,299	0	0
X.L. Reinsurance America Inc.	6,920,088	6,920,088	0	0
GE Reinsurance Corp.	6,697,299	0	6,697,299	0
QBE International Insurance Ltd.	4,747,481	0	4,747,481	0
American Re-Insurance Co.	4,535,765	4,535,765	0	0
Converium Reinsurance North America Inc.	4,370,273	4,370,273	0	0
Lloyd's Syndicate #2020	4,184,284	4,184,284	0	0
Employers Reinsurance Corp. (ERC)	3,748,700	0	3,748,700	0
Continental Casualty Co. (CNA)	3,434,354	3,434,354	0	0
Everest Reinsurance Co.	3,248,062	0	3,248,062	0
Hannover Ruckversicherungs AG	3,144,550	3,144,550	0	0
Allstate Insurance Co.	3,099,335	0	3,099,335	0
Insurance Co. of North America	3,091,455	3,091,455	0	0
Wurtembergische Versicherungs AG	2,768,564	2,768,564	0	0
Employers Insurance Co. of Wausau	2,519,648	0	2,519,648	0
Odyssey America Reinsurance Corp.	2,240,589	250,138	1,990,451	0
Royal & Sun Alliance PLC	2,171,660	2,171,660	0	0
Lloyd's (Auth)	1,892,923	1,892,923	0	0
Mutual Reinsurance Bureau	1,592,466	119,858	1,472,608	0
Lloyd's Syndicate #2791	1,547,499	1,547,499	0	0
Folksamerica Reinsurance Co.	1,242,825	1,242,825	0	0
Lloyd's Syndicate #1212	1,196,745	1,196,745	0	0
National Casualty Co.	1,169,499	0	1,169,499	0
Liberty Mutual (UK) Ltd.	1,061,771	1,061,771	0	0
Lloyd's Syndicate #1241	981,908	981,908	0	0
TOA Reinsurance Co. of America	896,261	0	896,261	0
Lloyd's Syndicate #250	884,175	884,175	0	0
Argonaut Insurance Co.	735,728	735,728	0	0
Lloyd's Syndicate #183	676,521	676,521	0	0
American Healthcare Indemnity Co.	592,551	0	592,551	0
General Reinsurance Co.	590,601	590,601	0	0
Lloyd's Syndicate #510	578,789	578,789	0	0
Turegum Insurance Co.	470,704	470,704	0	0
Zurich Vers Ges AG	458,042	0	458,042	0
Lloyd's (Unauth)	343,312	343,312	0	0
Excess Insurance Co. Ltd.	263,007	263,007	0	0
PMA Capital Insurance Co.	237,020	0	237,020	0
Lloyd's Syndicate #138	177,596	177,596	0	0
Lloyd's Syndicate #727	177,596	177,596	0	0
American States Insurance Co.	140,993	140,993	0	0
New Jersey Reinsurance Co.	140,396	0	140,396	0
Partner Reinsurance New York	64,139	0	64,139	0
Nationwide Mutual Insurance Co.	55,509	0	55,509	0
Odyssey Reinsurance Corp.	53,540	53,540	0	0
QBE Reinsurance Corp.	40,360	40,360	0	0
Total	\$193,024,799	74,143,091	37,516,621	81,365,087

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, 2003, is shown below:

	ASSUMED REINSURANCE		CEDED REINSURANCE		NET	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
	(1)	(2)	(3)	(4)	(5)	(6)
(i) Affiliates	\$179,457,246	\$23,390,862	\$ 9,204,257	\$ 993,041	\$170,252,989	\$ 22,397,821
(ii) All other	23,806,325	7,444,492	159,242,367	25,774,304	(135,436,042)	(18,329,812)
(iii) Total	\$203,263,571	\$30,835,354	\$168,446,624	\$26,767,345	\$ 34,816,947	\$ 4,068,008
(iv) Direct Unearned Premium Reserve:	\$76,778,545					

NOTES TO FINANCIAL STATEMENTS

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

	REINSURANCE			
	Direct (1)	Assumed (2)	Ceded (3)	Net (4)
(i) Contingent commission	\$(60,546,967)	62,028,753	24,335	1,457,451
(ii) Sliding scale adjustments	0	0	0	0
(iii) Other profit commission arrangements	0	0	0	0
(iv) Total	\$(60,546,967)	62,028,753	24,335	1,457,451

D. Uncollectible Reinsurance

During 2003, the Company wrote-off \$12,482,111 related to reinsurance paid loss recoverable balances with the following reinsurers:

FEIN CODE	NAIC Code	Name of Reinsurer	Amount
06-0237820	20699	Ace Property & Casualty Insurance Co.	\$ 477,000
36-2763106	18910	American Protection Insurance Co.	570,000
35-0145400	19704	American States Insurance Co.	13,000
94-1390273	19801	Argonaut Insurance Co.	114,000
04-1590940	11835	AXA America Insurance Co.	544,000
AA-1120355		CX Reinsurance Co. Ltd.	83,000
AA-9995022	16691	Excess and Casualty Reinsurance Assn.	5,152,000
31-0501234		Great American Insurance Co.	500,000
AA-1340125		Hannover Ruckversicherungs AG	121,000
06-0384680	11452	Hartford Steam Boil Inspection & Insurance Co.	706,000
74-1296673	22489	Highlands Insurance Co.	399,000
AA-1122000		Lloyd's of London (Authorized)	767,000
AA-1127212		Lloyd's Syndicate Number 1212	4,000
AA-1127900		Lloyd's Syndicate Number 1900	11,000
AA-1126991		Lloyd's Syndicate Number 991	1,000
AA-1121425		Markel International Insurance Co. Ltd.	34,000
38-0855585	22012	Motors Insurance Corp.	472,000
25-0687550	19445	National Union Fire Insurance Co. of Pittsburgh	112,000
23-2745904	10019	Overseas Partners U.S. Reinsurance Co.	250,000
39-0333950	24988	Sentry Insurance A Mutual Co.	66,000
41-0406690	24767	St. Paul Fire & Marine Insurance Co.	262,000
06-0839705	82627	Swiss Reinsurance Life & Health America, Inc.	27,000
06-1117063	34894	Trenwick America Reinsurance Corp.	1,002,000
AA-1121480		Union America Insurance Co. Ltd.	12,000
AA-3190450		Patriot Insurance Co. Ltd.	783,111
		Total	\$12,482,111

NOTES TO FINANCIAL STATEMENTS

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E. Commutation of Ceded Reinsurance

During 2003, the Company completed several material commutations which are referenced in this note as Ceded Contracts #1 through #9. Ceded Contract #1 covers all lines of business for selected business units and is referred to as the "Underlying Stop Loss Reinsurance Contract". Ceded Contract #2 covers personal lines and surety exposures for selected business units and is referred to as the "Aggregate Stop Loss Reinsurance Agreement" and "IFG Casualty Catastrophe Excess of Loss Reinsurance Contract" (two agreements). Ceded Contract #3 covers environmental, asbestos and other mass tort exposures and is referred to as the "Asbestos and Environmental Loss Portfolio Transfer Agreement." Ceded Contract #4 covers all lines of business and is referred to as the "Adverse Loss Development Reinsurance Agreement." Ceded Contracts #5 through #9 cover all lines of business and are referred to as the "Aggregate Excess of Loss Reinsurance Treaties". Ceded Contract #7 was not fully commuted. The remaining reinsurer has a 10% participation. Ceded Contract effective dates and reinsurer information is contained in the tables below. The impact to "other expense" of \$(365,196,455) was largely offset by decreases to incurred losses resulting from receiving an accounting allowance to discount the Company's loss and loss adjustment expense reserves at 4.2% (see Note 1).

Contract Number	Contract #1	Contract #2	Contract #3	Contract #4	Contract #5
Effective Date	01/01/2001	01/01/2001	12/31/2001	12/31/2001	01/01/1998
(1) Losses Incurred					
(2) Loss Adjustment Expenses Incurred					
(3) Premiums					
(4) Other Income (Expense)	221,002	(229,176)	(197,500,000)	(122,400,000)	(14,552,583)

Contract Number	Contract #6	Contract #7	Contract #8	Contract #9	Total
Effective Date	01/01/1999	01/01/2000	01/01/2001	01/01/2002	
(1) Losses Incurred					0
(2) Loss Adjustment Expenses Incurred					0
(3) Premiums					0
(4) Other Income (Expense)	(16,947,191)	(26,578,741)	20,647,782	(7,857,548)	\$(365,196,455)
(5) Company					

NOTES TO FINANCIAL STATEMENTS

Ceded Contract	Reinsurer	FEIN Code	NAIC Code	Participation Percentage	Amount (Income Expense)
Contract #1	Underwriters Reinsurance Co. (Barbados) Inc.	AA-3160079	NA	100.0%	221,002
Contract #2	Underwriters Reinsurance Co. (Barbados) Inc.	AA-3160079	NA	100.0%	(229,176)
Contract #3	National Fire & Marine Ins. Co.	47-6021331	20079	100.0%	(197,500,000)
Contract #4	National Fire & Marine Ins. Co.	47-6021331	20079	100.0%	(122,400,000)
Contract #5	Underwriters Reinsurance Co. (Barbados) Inc.	AA-3160079	N/A	25.0%	(3,638,146)
	Scandinavian Reinsurance Co.	AA-3190174	N/A	25.0%	(3,638,146)
	London Life & Casualty Reinsurance Corp. (Barbados)	AA-3161009	N/A	20.0%	(2,910,517)
	Inter-Ocean Re-Ins Co.	AA-3190458	N/A	30.0%	(4,365,775)
Contract #6	Underwriters Reinsurance Co. (Barbados) Inc.	AA-3160079	N/A	32.5%	(5,507,837)
	Scandinavian Reinsurance Co.	AA-3190174	N/A	25.0%	(4,236,798)
	London Life & Casualty Reinsurance Co. (Barbados)	AA-3161009	N/A	20.0%	(3,389,438)
	Max Re Ltd.	AA-3190829	N/A	22.5%	(3,813,118)
Contract #7	Underwriters Reinsurance Co. (Barbados) Inc.	AA-3160079	N/A	38.9%	(10,336,177)
	Scandinavian Reins Co.	AA-3190174	N/A	27.8%	(7,382,984)
	London Life & Casualty Reinsurance Corp. (Barbados)	AA-1780047	N/A	8.3%	(2,214,895)
	London Life & General Company Limited		N/A	25.0%	(6,644,685)
Contract #8	Underwriters Reinsurance Co. (Barbados) Inc.	AA-3160079	N/A	100.0%	20,647,782
Contract #9	Underwriters Reinsurance Co. (Barbados) Inc.	AA-3160079	NA	100.0%	(7,857,548)
Total					\$ (365,196,455)

F. Retroactive Reinsurance

(1) As of December 31, 2003, the Company did not engage in any assumed retroactive reinsurance transactions. The remaining recoverable balance associated with Ceded Contract #1 was collected in 2003. Ceded Contract #6 was partially commuted in 2003. One reinsurer with a 10% participation remains on the contract. This contract covers all lines of business and is referred to as the "Aggregate Excess of Loss Reinsurance Treaty". All other ceded retroactive transactions have been fully commuted (see Note 23E: Commutation of Ceded Reinsurance). Contract effective date and reinsurer information is contained in the tables below:

Effective Date	Ceded Contracts							Total
	Contract #1 2/1/1998	Contract #2 12/31/2001	Contract #3 12/31/2001	Contract #4 1/1/1998	Contract #5 1/1/1999	Contract #6 1/1/2000	Contract #7 1/1/2001	
A - Reserves Transferred:								
Initial reserves	48,750,000	550,000,000	527,400,000	80,543,000	163,625,000	175,103,000	225,000,000	1,770,421,000
Adjustments - prior year(s)	(975,000)	-	-	-	-	-	-	(975,000)
Adjustments - current year	-	(550,000,000)	(527,400,000)	(16,953,360)	(17)	(62,768,126)	(65,396,037)	(1,222,517,540)
Current total	47,775,000	-	-	63,589,640	163,624,983	112,334,874	159,603,963	546,928,460
B - Consideration Paid								

NOTES TO FINANCIAL STATEMENTS

or Received:								
Initial consideration	33,075,000	352,500,000	407,400,000	54,379,592	126,614,146	115,559,517	175,046,394	1,264,574,649
Adjustments - prior year(s)	(661,500)	1,250,000	-	-	-	-	-	588,500
Adjustments - current year	-	(353,750,000)	(407,400,000)	2,519,828	631	6,699,452	18,091,894	(733,838,195)
Current total	32,413,500	-	-	56,899,420	126,614,777	122,258,969	193,138,288	531,324,954
C - Paid Losses Reimbursed or Recovered:								
Prior year(s)	46,569,441	42,884,189	-	-	163,625,000	-	-	253,078,630
Current year	1,205,559	(42,884,189)	-	63,589,640	(17)	101,101,387	159,603,963	282,616,343
Current total	47,775,000	-	-	63,589,640	163,624,983	101,101,387	159,603,963	535,694,973
D - Special Surplus from Retroactive Reinsurance:								
Initial surplus gain or loss	15,675,000	197,500,000	120,000,000	26,163,408	37,010,854	59,543,483	49,953,606	505,846,351
Adjustments - prior year(s)	(313,500)	(1,250,000)	-	-	-	-	-	(1,563,500)
Adjustments - current year	-	(196,250,000)	(120,000,000)	(19,473,188)	(648)	(69,467,578)	(83,487,931)	(488,679,345)
Current year restricted Surplus	-	-	-	-	-	-	-	-
Cumulative total transferred to unassigned funds	15,361,500	-	-	6,690,220	37,010,206	(9,924,095)	(33,534,325)	15,603,506

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

Ceded Contract	Covered Business	Reinsurer	FEIN Code	NAIC Code	Participation Percentage	Ceded Amount
Contract #1	Workers Compensation	Commercial Risk Re-Ins Co.	03-0331391	27955	100.0%	47,775,000
Contract #2	Environmental, Asbestos, Other Mass Torts	National Fire & Marine Ins. Co.	47-6021331	20079	100.0%	-
Contract #3	All Lines	National Fire & Marine Ins. Co.	47-6021331	20079	100.0%	-
Contract #4	All Lines	Inter-Ocean Re-Ins Co.	AA-3190458	N/A	30.0%	19,076,892
		London Life & Cas Reins Co.	AA-3161009	N/A	20.0%	12,717,928
		Scandinavian Reins Co.	AA-3190174	N/A	25.0%	15,897,410
		Underwriters Reins Co.	AA-3160079	N/A	25.0%	15,897,410
Contract #5	All Lines	London Life & Cas Reins. Co.	AA-3161009	N/A	20.0%	32,724,997
		Max Re Ltd.	AA-3190829	N/A	22.5%	36,815,621
		Scandinavian Reinsurance Co.	AA-3190174	N/A	25.0%	40,906,246
		Underwriters Reinsurance Co.	AA-3160079	N/A	32.5%	53,178,119
Contract #6	All Lines	London Life & General Reins.	AA-1780047	N/A	7.5%	8,425,116
		Max Re Ltd.	AA-3190829	N/A	22.5%	25,275,347
		PXRE Reinsurance Co.	AA-3194137	N/A	10.0%	11,233,487
		Scandinavian Reinsurance Co.	AA-3190174	N/A	25.0%	28,083,718
		Underwriters Reinsurance Co.	AA-3160079	N/A	35.0%	39,317,206
Contract #7	All Lines	Underwriters Reinsurance Co.	AA-3160079	N/A	100.0%	159,603,963
Total						546,928,460

F - As of December 31, 2003, Ceded Contract #1 through Ceded Contract #7 did not have paid loss recoverables.

(2) The Company has accounted for all material contracts of reinsurance, covering losses that have occurred prior to the inception of the contract, in conformity with the instructions contained in the Manual.

NOTES TO FINANCIAL STATEMENTS

G. Reinsurance Accounted for as a Deposit

The Company entered into various reinsurance agreements in previous years which were determined to be of a deposit type nature in the fourth quarter of 2002. During 2003, contracts #1 and #2 were novated and contracts #5 and #6 were commuted. As of December 31, 2003, the Company had a total remaining deposit balance of \$55,190,454 after taking into account interest income and cash recoveries, as follows:

(Amounts in thousands)

	Contract #1	Contract #2	Contract #3	Contract #4	Contract #5	Contract #6	Total
Effective Yield	0.00%	0.00%	6.68%	11.28%	0.00%	0.00%	
2000:							
Initial payment	\$72,612	0	22,007	0	0	0	94,619
Cash deposits	0	0	0	0	0	0	0
Interest income	994	0	124	0	0	0	1,118
Cash recoveries	(993)	0	(29)	0	0	0	(1,022)
Deposit balance	\$72,613	0	22,102	0	0	0	94,715
2001:							
Initial payment	0	0	0	0	26,750	10,408	37,158
Cash deposits	76,637	0	20,976	3,887	0	0	101,500
Interest income	4,583	0	618	240	487	0	5,928
Cash recoveries	(23,177)	0	(1,538)	(1,454)	0	0	(26,169)
Deposit balance	\$130,656	0	42,158	2,673	27,237	10,408	213,132
2002:							
Initial payment	0	0	0	0	0	0	0
Cash deposits	8,727	2,500	22,411	0	0	12,002	45,640
Interest income	6,501	65	1,047	290	496	(2,293)	6,106
Cash recoveries	(34,097)	0	(6,235)	(967)	0	0	(41,299)
Deposit balance	\$111,787	2,565	59,381	1,996	27,733	20,117	223,579
2003:							
Initial payment	(72,612)	0	0	0	0	0	(72,612)
Cash deposits	(85,364)	(2,500)	765	0	0	0	(87,099)
Interest income	(12,078)	(65)	7,342	114	(221)	371	(4,537)
Cash recoveries	58,267	0	(13,870)	(538)	(27,512)	(20,488)	(4,141)
Deposit balance	\$ 0	0	53,618	1,572	0	0	55,190

24. RETROSPECTIVELY RATED CONTRACTS & CONTRACTS SUBJECT TO REDETERMINATION

The amount shown under the statutory caption "accrued retrospective premiums" represents accrued dividend recalls, net of a valuation reserve, which totaled \$157,532,537 and \$123,216,344 at December 31, 2003 and 2002, respectively. See Note 1 for a description of the Company's accrual policy related to dividends payable to policyholders.

The valuation reserve is equal to 10% of the dividend recalls not offset by liabilities to the same policyholder (other than loss and loss expense reserves) or for which the Company holds acceptable collateral and totaled \$6,911,811 and \$4,839,925 at December 31, 2003 and 2002, respectively.

25. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	2003	2002
	(in thousands)	
Balance as of January 1, net of reinsurance recoverables of \$3,193,365 in 2003 and \$2,591,820 in 2002	\$ 3,502,137	3,183,425
Incurred related to:		
Current accident year	532,892	1,088,525
Prior accident years (excluding correction of errors and cumulative effect of changes in accounting principle)	(579,945)	343,404
Total incurred	(47,053)	1,431,929

NOTES TO FINANCIAL STATEMENTS

Correction of errors:			
Risk transfer		0	174,790
Retroactive reinsurance accounting		0	218,680
Total changes and corrections		0	393,470
Paid related to:			
Current accident year		81,341	(421,660)
Prior accident years		287,544	(1,085,027)
Total paid		368,885	(1,506,687)
Balance as of December 31, net of reinsurance recoverables of \$3,750,385 in 2003 and \$3,193,365 in 2002	\$	3,823,969	3,502,137

The liabilities for losses and LAE related to prior accident years decreased on a net basis by \$(579.9) million in 2003 and increased by \$343.4 million in 2002. The development in 2003 is comprised of permitted practice discount of \$(548.8) million and a large novated account of \$(203.3) million. The remaining adverse development of \$172.2 million was primarily attributable to worse than expected developments in workers compensation, other liability occurrence, surety and nonproportional assumed liability.

26. INTERCOMPANY POOLING ARRANGEMENTS

The Company is the lead company of the group of affiliated and associated companies (the Group) that have operated under the trade name of the Kemper Insurance Companies. The significant majority of the business written by member insurance companies of the Group has historically been ceded to the Company through quota share reinsurance agreements with some Company subsidiaries retaining a portion of the business written and through a quota share pooling agreement by and among the Company, American Motorists Insurance Company (AMICO) and American Manufacturers Mutual Insurance Company (AMM). Prior to 2003, of the insurance business directly written by the Company or ceded to the Company, including all business written by AMICO and AMM, the Company ceded (net of third-party, unaffiliated, reinsurance and excluding Canadian business) 15% to AMICO and 8% to AMM. (Third-party reinsurance has generally attached after cessions by affiliates to the Company, although some specific risks have been subject to facultative or other reinsurance before cession to the Company.) Effective January 1, 2003, the pooling agreement was amended to eliminate the 15% cession to AMICO, and effective December 31, 2003, the pooling agreement was amended to eliminate the 8% cession to AMM. The effect of both amendments was for the Company to retain all previously ceded risks, and the amendments were accompanied by transfers of assets by each of AMICO and AMM in order to satisfy the liabilities transferred to the Company by the pooling agreement amendments. As a result, at December 31, 2003, the net reserves at each of AMICO and AMM are zero. Loss and loss expense reserves for the Group were analyzed in the aggregate for all companies and allocated to certain Company subsidiaries based on the business retained within those companies.

27. STRUCTURED SETTLEMENTS

- A. To discharge certain insurance claim liabilities, the Company has purchased structured settlement annuities with the claimant as payee. The aggregate December 31, 2003 value of loss reserves eliminated by the purchase of these annuities was \$142,714,005. The Company remains contingently liable should the issuers of the annuities fail to perform.
- B. The total value of annuities due from a life insurer in excess of 1% of the Company's surplus is shown in the table below.

Carrier	Location	LMC Reportable Amounts
SAFECO Life Insurance Co.	Seattle, WA	\$35,921,471
First Colony Life Insurance Co.	Lynchburg, VA	24,614,677
United Pacific Life Insurance Co.	Seattle, WA	23,886,681
Federal Home Life Insurance Co.	Richmond, VA	16,670,235
Metropolitan Life Insurance Co.	New York, NY	12,030,370
Prudential Life Insurance Co.	Newark, NJ	4,175,870
Transamerica Occidental Life Insurance Co.	Cedar Rapids, IA	3,472,992
Presidential Life Insurance Co.	Nyack, NY	2,963,024
Manufacturers Life of Canada	Toronto, ON	2,142,727

NOTES TO FINANCIAL STATEMENTS

28. HEALTH CARE RECEIVABLES

None.

29. PARTICIPATING POLICIES

None.

30. PREMIUM DEFICIENCY RESERVES

As of December 31, 2003, the Company had liabilities of \$8,485,516 related to premium deficiency reserves. The Company used an offset of \$6,476,771 for anticipated investment based on an interest rate of 4.2% when calculating its premium deficiency reserves.

31. HIGH DEDUCTIBLES

As of December 31, 2003, the amount of reserve credits recorded for high deductibles on unpaid claims was \$2,692,364,158 and the amount billed and recoverable on paid claims was \$25,233,824.

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

Statutory accounting rules promulgated by the Manual allow workers' compensation tabular indemnity reserves and long-term disability claims which have fixed and reasonably determinable payments to be discounted. However, the Department of Insurance has allowed the Company to discount all its loss and loss adjustment expense reserves at December 31, 2003, using a 4.2% interest rate assumption. See Note 1A. The table below highlights both the indemnity pension discount allowed by the Manual, which the Company reflects in its financial statements at December 31, 2002 and 2003, and the additional discount as allowed by the Department of Insurance, which the Company reflects only at December 31, 2003.

The indemnity loss portion of unpaid workers' compensation pension cases on a tabular basis are discounted using the 1989/1991 United States Decennial Life Tables for Female and Male Population at 3.5%, except for cases from Massachusetts, New Jersey, and New York. The Company discounts cases from Massachusetts using the 1979/1981 United States Decennial Life Tables for Total Population at 3.5% adjusted for injured workers' mortality. New Jersey cases use the 1989/1991 United States Decennial Life Tables for Female and Male Population at 5.0%. New York cases use New York Special Bulletin 222 from the New York State Workers' Compensation Board at 3.0% or 6.0% depending on the accident date. The liabilities at December 31, 2003 include \$242,144,154 of such tabular indemnity loss reserve discount.

The Company also discounts its unpaid loss reserves for the medical portion of workers' compensation pension cases using the 1989/1991 United States Decennial Life Tables for Female and Male Population. Accordingly, the Department of Insurance permitted the Company in 2002 and 2003 to continue discounting such reserves. The reserves are first increased by a 5% medical cost inflation factor and then discounted by 3.5%. The medical loss reserve discounts are shown in Schedule P as non-tabular discounts following the Company's permitted practice. The liabilities at December 31, 2003 include \$240,724,329 for such medical loss reserve discount.

Pursuant to the previously mentioned accounting allowance, the Company discounts all unpaid loss and loss adjustment expense reserves at a 4.2% interest rate at December 31, 2003. The additional workers' compensation pension discount associated with using a 4.2% interest rate instead of the 3.5% interest rate has been categorized as All Other Non-Tabular Discount in the table that follows. The combined discount for unpaid loss and unpaid defense and cost containment expenses are all included in the discount for unpaid loss column. The discount associated with unpaid adjusting and other expenses is split out separately. The liabilities at December 31, 2003 include \$609,685,640 of accounting allowance discount in excess of the amount allowed by the Manual and the prior permitted practice.

NOTES TO FINANCIAL STATEMENTS

(000's Omitted)					
Tabular Pension Discount					
Included in Schedule P, Part 1					
<u>Line of Business</u>	<u>Case</u>	<u>IBNR</u>	<u>Total</u>		
Workers' Compensation	\$212,650	29,494	242,144		
Non-Tabular Pension Discount					
<u>Line of Business</u>	<u>Case</u>	<u>IBNR</u>	<u>Total</u>		
Workers' Compensation	194,961	45,763	240,724		
All Other Non-Tabular Discount					
<u>Line of Business</u>	<u>Case</u>	<u>IBNR</u>	<u>Defense & Cost Containment</u>	<u>Adjusting & Other Expense</u>	<u>Total</u>
Homeowners/Farmowners	0	1,021	0	50	1,071
Private Passenger Auto/Truck Liability/Medical	0	10,144	0	520	10,664
Commercial Auto/Truck Liability/Medical	0	18,430	0	833	19,263
Workers' Compensation	0	255,194	0	9,686	264,880
Commercial Multi Peril	0	29,530	0	1,401	30,931
Medical Malpractice - claims-made	0	744	0	28	772
Specialty Liability	0	608	0	32	640
Other Liability - occurrence	0	75,290	0	3,595	78,884
Special Property	0	1,197	0	34	1,231
Auto Physical Damage	0	(61)	0	(3)	(64)
Fidelity/Surety	0	7,217	0	376	7,593
Other (including Credit, A&H)	0	3,642	0	167	3,809
Reinsurance Nonproportional Assumed Liability	0	6,138	0	344	6,482
Products Liability - occurrence	0	181,139	0	2,390	183,529
Total	0	590,233	0	19,453	609,686
Grand Total	\$407,611	665,490	0	19,453	1,092,554

33. ASBESTOS/ENVIRONMENTAL RESERVES

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

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

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

Gross of Reinsurance (000 omitted)	1999	2000	2001	2002	2003
Beginning reserves	\$157,974	\$ 119,185	\$113,347	\$763,742	\$767,234
Codification adjustment at 1/1/01	0	0	200,735	0	0
Incurred losses and LAE	4,267	25,101	515,898	54,608	113,263
Calendar year payments for					
Losses and LAE	(43,056)	(30,939)	(66,238)	(51,116)	(80,910)
Ending asbestos related loss reserves	\$119,185	\$ 113,347	\$763,742	\$767,234	\$799,587

Net of Reinsurance (000 omitted)	1999	2000	2001	2002	2003
Beginning reserves	\$ 81,359	\$ 69,690	\$77,841	\$382,891	\$390,094
Codification adjustment at 1/1/01	0	0	154,566	0	0
Incurred losses and LAE	(18,482)	43,183	199,092	34,448	29,232
Calendar year payments for					
losses and LAE	6,813	(35,032)	(48,608)	(27,245)	24,483
Ending asbestos related loss reserves	\$ 69,690	\$ 77,841	\$382,891	\$390,094	\$443,809

The total asbestos related loss reserves at December 31, 2003 include IBNR reserves in the amount of \$239,521,000 gross of reinsurance and \$146,012,000 net of reinsurance. These IBNR reserves and the

NOTES TO FINANCIAL STATEMENTS

comparable amounts for prior years cover both losses and defense and cost containment expenses. The Company also includes adjusting and other expenses in the amounts shown above.

The asbestos related loss reserves stated above are not discounted. Pursuant to an accounting allowance (see Note 1), the amount of the discount on reserves at December 31, 2003 is \$167,843,000 gross of reinsurance and \$167,843,000 net of reinsurance.

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

Gross of Reinsurance (000 omitted)	1999	2000	2001	2002	2003
Beginning reserves	\$201,388	\$ 163,118	\$92,088	\$105,488	\$155,319
Codification adjustment at 1/1/01	0	0	114,385	0	0
Incurred losses and LAE	910	5,088	(32,006)	54,551	(2,506)
Calendar year payments for					
losses and LAE	(39,180)	(76,118)	(68,979)	(4,720)	(5,802)
Ending environmental loss reserves	\$163,118	\$ 92,088	\$105,488	\$155,319	\$147,011

Net of Reinsurance (000 omitted)	1999	2000	2001	2002	2003
Beginning reserves	\$120,105	\$113,292	\$59,704	\$69,188	\$104,946
Codification adjustment at 1/1/01	0	0	88,076	0	0
Incurred losses and LAE	(2,638)	(22,118)	(38,247)	29,244	(3,068)
Calendar year payments for					
losses and LAE	(4,175)	(31,470)	(40,345)	6,514	23,984
Ending environmental loss reserves	\$113,292	\$ 59,704	\$69,188	\$104,946	\$125,862

The total environmental loss reserves at December 31, 2003 include IBNR reserves in the amount of \$80,793,000 gross of reinsurance and \$81,241,000 net of reinsurance. These IBNR reserves and the comparable amounts for prior years cover both losses and defense and cost containment expenses. The Company also includes adjusting and other expenses in the amounts shown above.

The environmental related loss reserves stated above are not discounted. Pursuant to an accounting allowance (see Note 1), the amount of the discount on reserves at December 31, 2003 is \$11,077,000 gross of reinsurance and \$11,077,000 net of reinsurance.

34. SUBSCRIBER SAVINGS ACCOUNT

None.

35. MULTIPLE PERIL CROP INSURANCE

None.

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. Treasury securities	554,362,260	13.888	554,362,260	13.888
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies		0.000		0.000
1.22 Issued by U.S. government sponsored agencies	100,568,010	2.520	100,568,010	2.520
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)	22,419,297	0.562	22,419,297	0.562
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations		0.000		0.000
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations		0.000		0.000
1.43 Revenue and assessment obligations	66,148,724	1.657	66,148,724	1.657
1.44 Industrial development and similar obligations		0.000		0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA	9,656,387	0.242	9,656,387	0.242
1.512 Issued by FNMA and FHLMC	37,054,625	0.928	37,054,625	0.928
1.513 Privately issued	321,249,918	8.048	321,249,918	8.048
1.52 CMOs and REMICs:				
1.521 Issued by FNMA and FHLMC		0.000		0.000
1.522 Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC		0.000		0.000
1.523 All other privately issued	16,969,179	0.425	16,969,179	0.425
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	521,010,895	13.053	521,010,895	13.053
2.2 Unaffiliated foreign securities	23,912,567	0.599	23,912,567	0.599
2.3 Affiliated securities	19,082,580	0.478	19,082,580	0.478
3. Equity interests:				
3.1 Investments in mutual funds		0.000		0.000
3.2 Preferred stocks:				
3.21 Affiliated		0.000		0.000
3.22 Unaffiliated	13,388,287	0.335	13,388,287	0.335
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated		0.000		0.000
3.32 Unaffiliated	5,873,248	0.147	5,873,248	0.147
3.4 Other equity securities:				
3.41 Affiliated	260,674,361	6.530	260,674,361	6.530
3.42 Unaffiliated	2,171,075	0.054	2,171,075	0.054
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated	32,287,543	0.809	32,287,543	0.809
3.52 Unaffiliated	52,961,434	1.327	52,961,434	1.327
4. Mortgage loans:				
4.1 Construction and land development	4,500,000	0.113	4,500,000	0.113
4.2 Agricultural		0.000		0.000
4.3 Single family residential properties	12,647,650	0.317	12,647,650	0.317
4.4 Multifamily residential properties		0.000		0.000
4.5 Commercial loans		0.000		0.000
4.6 Mezzanine real estate loans		0.000		0.000
5. Real estate investments:				
5.1 Property occupied by the company		0.000	0	0.000
5.2 Property held for the production of income (includes \$ of property acquired in satisfaction of debt)		0.000	0	0.000
5.3 Property held for sale (\$ including property acquired in satisfaction of debt)	40,855,789	1.024	40,855,789	1.024
6. Policy loans		0.000		0.000
7. Receivables for securities	3,287,363	0.082	3,287,363	0.082
8. Cash and short-term investments	1,870,573,731	46.862	1,870,573,731	46.862
9. Other invested assets		0.000		0.000
10. Total invested assets	3,991,654,923	100.000	3,991,654,923	100.000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [] 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 [] 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 []
- 2.2 If yes, date of change:
If not previously filed, furnish herewith a certified copy of the instrument as amended.
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made.12/31/2000
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.12/31/2000
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).11/18/2003
- 3.4 By what department or departments? Illinois, Delaware, Mississippi and Nevada
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity), receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
 - 4.11 sales of new business? Yes [] No []
 - 4.12 renewals? Yes [] No []
- 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 []
 - 4.22 renewals? Yes [] No []
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [] No []
- 5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

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

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.) Yes [] No []
- 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 []
- 7.2 If yes,
 - 7.21 State the percentage of foreign control;
 - 7.22 State the nationality(s) of the foreign person(s) or entity(s) or if the entity is a mutual or reciprocal, the nationality of its manager or attorney in fact; and identify the type of entity(s) (e.g., individual, corporation or government, manager or attorney in fact).

1 Nationality	2 Type of Entity

GENERAL INTERROGATORIES

(continued)

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

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

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
KPMG LLP, Peat Marwick Plaza, 303 East Wacker Drive, Chicago, Illinois, 60601-9973
10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
Frederick O. Kist, FCAS, MAAA, Senior Vice President and Actuary, Lumbermens Mutual Casualty Company, Long Grove, Illinois 60049-0001
11. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 11.1 What changes have been made during the year in the United States Manager or the United States Trustees of the reporting entity?
- 11.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [] No []
- 11.3 Have there been any changes made to any of the trust indentures during the year? Yes [] No []
- 11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes? Yes [] No [] NA []

BOARD OF DIRECTORS

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

FINANCIAL

- 15.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- | | | |
|--|---|-----------|
| | 15.11 To directors or other officers .. | \$0 |
| | 15.12 To stockholders not officers ... | \$0 |
| | 15.13 Trustees, supreme or grand (Fraternal only) | \$0 |
- 15.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- | | | |
|--|---|-------------------|
| | 15.21 To directors or other officers ... | \$2,193,759 |
| | 15.22 To stockholders not officers ... | \$0 |
| | 15.23 Trustees, supreme or grand (Fraternal only) | \$0 |
- 16.1 Were any of the assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in this statement? Yes [] No [X]
- 16.2 If yes, state the amount thereof at December 31 of the current year:
- | | | |
|--|----------------------------------|----------|
| | 16.21 Rented from others | \$ |
| | 16.22 Borrowed from others | \$ |
| | 16.23 Leased from others | \$ |
| | 16.24 Other | \$ |
- Disclose in Notes to Financial the nature of each obligation.
- 17.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [] No [X]
- 17.2 If answer is yes,
- | | | |
|--|--|----------|
| | 17.21 Amount paid as losses or risk adjustment | \$ |
| | 17.22 Amount paid as expenses | \$ |
| | 17.23 Other amounts paid | \$ |

GENERAL INTERROGATORIES

(continued)
INVESTMENT

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

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

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

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

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

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

20.21	Loaned to others	\$	134
20.22	Subject to repurchase agreements	\$	
20.23	Subject to reverse repurchase agreements	\$	
20.24	Subject to dollar repurchase agreements	\$	
20.25	Subject to reverse dollar repurchase agreements	\$	
20.26	Pledged as collateral	\$	
20.27	Placed under option agreements	\$	
20.28	Letter stock or other securities restricted as to sale ...	\$	
20.29	Other	\$	

20.3 For each category above, if any of these assets are held by other, identify by whom held:

20.31 Available on request.....	20.35
20.32	20.36
20.33	20.37
20.34	20.38
	20.39

For categories (20.21) and (20.23) above, and for any securities that were made available for use by another person during the period covered by this statement, attach a schedule as shown in the instructions to the annual statement.

20.4 For category (20.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount
.....
.....
.....
.....

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

21.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [] No [] NA [X]
 If no, attach a description with this statement.

22.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [] No [X]

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

GENERAL INTERROGATORIES

(continued)

INVESTMENT

23. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 – General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes [] No []

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

1 Name of Custodian(s)	2 Custodian's Address
BNY Midwest Trust Company.....	209 W. Jackson Blvd., Suite 700, Chicago, IL 60606.....

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

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

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year?

Yes [] No []

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

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

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

1 Central Registration Depository Number(s)	2 Name	2 Address
104518.....	Deutsche Investment Management Americas, Inc.....	222 S. Riverside Plaza, Chicago, IL 60606-5808.....

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

Yes [] No []

24.2 If yes, complete the following schedule:

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

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

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

GENERAL INTERROGATORIES

(continued)

OTHER

25.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any?.....\$5,275,540

25.2 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

26.1 Amount of payments for legal expenses, if any?.....\$8,301,742

26.2 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
Sidley Austin Brown & Wood.....	2,187,852

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

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

1 Name	2 Amount Paid

GENERAL INTERROGATORIES

(continued)

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

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

1.31 Reason for excluding

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

1.6 Individual policies:

Most current three years:

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

All years prior to most current three years:

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

1.7 Group policies:

Most current three years:

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

All years prior to most current three years:

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

2. Health Test:

		1		2
		Current Year		Prior Year
2.1	Premium Numerator	\$2,306	\$	.....1,930
2.2	Premium Denominator	\$398,380,309	\$	.....1,462,619,452
2.3	Premium Ratio (2.1/2.2)	.....0.000		.....0.000
2.4	Reserve Numerator	\$41,451,851	\$	.....116,751,467
2.5	Reserve Denominator	\$4,003,599,916	\$	.....3,783,205,681
2.6	Reserve Ratio (2.4/2.5)	.....0.010		.....0.031

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

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

- 3.21 Participating policies..... \$
- 3.22 Non-participating policies..... \$

4. For Mutual Reporting Entities and Reciprocal Exchanges Only:

- 4.1 Does the reporting entity issue assessable policies?..... Yes [] No [X]
- 4.2 Does the reporting entity issue non-assessable policies?..... Yes [X] No []
- 4.3 If assessable policies are issued, what is the extent of the contingent liability of the policyholders?..... %
- 4.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums?..... \$

5. For Reciprocal Exchanges Only:

- 5.1 Does the Exchange appoint local agents?..... Yes [] No []
- 5.2 If yes, is the commission paid:

- 5.21 Out of Attorney's-in-fact compensation..... Yes [] No [] NA [X]
- 5.22 As a direct expense of the Exchange..... Yes [] No [] NA [X]

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

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

5.5 If yes, give full information

GENERAL INTERROGATORIES
PART 2 - PROPERTY & CASUALTY INTERROGATORIES (continued)

- 6.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit of loss?
 The Company purchased Casualty and Workers' Compensation Catastrophe Excess of Loss Reinsurance for the period ended July 1, 2003.....
- 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 models wind and earthquake exposure in 21 Atlantic and Gulf of Mexico states, Vermont, California and the New Madrid states, plus earthquake exposure in Japan using RMS and A.I.R. software. In addition, the Company has analyzed its workers compensation book countrywide to determine concentrations of insured workers by location using third party demographic datasources.....
- 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 purchased property catastrophe excess of loss reinsurance for the period ended 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
- 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 uninsured catastrophic loss.

- 7.1 Has this reporting entity reinsured any risk with any other entity under a quota share reinsurance contract which includes a provision which would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss ratio cap, an aggregate limit or any similar provision)?..... Yes No
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions:6
- 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
- 8.2 If yes, give full information

9. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done?..... Yes No NA
- 10.1 Has this reporting entity guaranteed policies issued by any other entity and now in force?..... Yes No
- 10.2 If yes, give full information
 The Company guaranteed the minimum capital and surplus requirements under state law for its affiliates: Kemper Casualty Insurance Company and Specialty National Insurance Company. The Company also guaranteed minimum Risk Based Capital ratio of Specialty National Insurance Company as calculated under its statutory Annual Statement and the obligations under policies issued on and after January 1, 2002 by Kemper Societe Anonyme. Additionally, the Company provided a guaranty as a requirement for the voluntary dissolutions of the following companies that had no policy obligations: Kemper Safeguard Surplus Insurance Company, Long Grove Insurance Company, GreatLand Insurance Company, Ridgeland Insurance Company, Kemper Commercial Insurance Company and Kemper Comprehensive Insurance Company.....
- 11.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 12.3 of the assets schedule, Page 2, state the amount of corresponding liabilities recorded for:
 11.11 Unpaid losses..... \$.....0
 11.12 Unpaid underwriting expenses (including loss adjustment expenses)..... \$.....0
- 11.2 Of the amount on Line 12.3 of the assets schedule, Page 2, state the amount which is secured by letters of credit, collateral and other funds..... \$.....93,791,996
- 11.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation are premium or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses?..... Yes No NA
- 11.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
 11.41 From..... 0.0 %
 11.42 To..... 0.0 %
- 11.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium or promissory notes taken by the reporting entity, or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies?..... Yes No
- 11.6 If yes, state the amount thereof at December 31 of the current year:
 11.61 Letters of Credit..... \$.....3,019,272,573
 11.62 Collateral and other funds..... \$.....502,463,507
- 12.1 What amount of installment notes is owned and now held by the reporting entity?..... \$.....0
- 12.2 Have any of these notes been hypothecated, sold or used in any manner as security for money loaned within the past year?..... Yes No
- 12.3 If yes, what amount?..... \$.....
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$.....20,000,000
- 13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision?..... Yes No
- 13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of this amount.....1

GENERAL INTERROGATORIES
PART 2 - PROPERTY & CASUALTY INTERROGATORIES (continued)

14.1 Has this reporting entity guaranteed any financed premium accounts?..... Yes [] No [X]
 14.2 If yes, give full information

15.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [X] No []
 15.11 Name of real estate holding company LGA-17 & Delta Wetlands
 Joint Venture.....
 15.12 Number of parcels involved 2
 15.13 Total book/adjusted carrying value \$ 9,737,338

15.2 If yes, provide explanation:

16.1 Does the reporting entity write any warranty business? Yes [X] No []
 If yes, disclose the following information for each of the following types of warranty coverage:

	1 Direct Losses Incurred	2 Direct Losses Unpaid	3 Direct Written Premium	4 Direct Premium Unearned	5 Direct Premium Earned
16.11 Home	\$ 6,361	\$ 6,095	\$ 219,637	\$ 215,444	\$ 5,038
16.12 Products	\$ 6,131,254	\$ 4,946,984	\$ 4,971,710	\$ 6,412,436	\$ 3,185,089
16.13 Automobile	\$	\$	\$	\$	\$
16.14 Other*	\$	\$	\$	\$	\$

* Disclose type of coverage:

ANNUAL STATEMENT FOR THE YEAR 2003 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 2003	2 2002	3 2001	4 2000	5 1999
Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	629,763,302	3,129,414,870	3,054,037,377	2,626,081,524	2,100,018,046
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	214,257,216	510,450,126	850,043,494	512,874,762	447,665,064
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	231,115,268	668,256,584	640,146,772	648,398,080	742,189,384
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	(17,550,167)	243,336,275	214,488,738	159,854,269	117,461,577
5. Non-proportional reinsurance lines (Lines 30, 31 & 32)	9,763,406	38,907,249	33,314,009	30,252,004	30,817,168
6. Total (Line 34)	1,067,349,025	4,590,365,104	4,792,030,390	3,977,460,639	3,438,151,239
Net Premiums Written (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	268,603,498	415,341,865	1,167,384,721	1,387,976,269	1,181,509,597
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	48,122,517	138,217,595	282,553,770	302,662,763	250,421,865
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	33,750,795	124,292,413	357,657,074	386,694,976	363,015,435
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	(112,873,230)	19,140,857	71,416,424	65,327,990	57,146,767
11. Non-proportional reinsurance lines (Lines 30, 31 & 32)	2,962,535	635,532	1,929,596	3,623,143	(899,848)
12. Total (Line 34)	240,566,115	697,628,262	1,880,941,585	2,146,285,141	1,851,193,816
Statement of Income (Page 4)					
13. Net underwriting gain (Loss) (Line 8)	101,824,464	(238,226,578)	(219,529,138)	(61,036,076)	(35,409,697)
14. Net investment gain (Loss) (Line 11)	(389,652,336)	(114,325,621)	125,928,176	279,802,420	351,131,347
15. Total other income (Line 15)	(239,745,941)	152,144,259	167,276,952	8,290,735	17,699,655
16. Dividends to policyholders (Line 17)	16,972,607	55,400,810	67,548,338	135,631,513	178,835,009
17. Federal and foreign income taxes incurred (Line 19)	(27,168,635)	(49,888,771)	(65,343,362)	39,711,988	61,263,794
18. Net income (Line 20)	(517,377,785)	(205,919,979)	71,471,014	51,713,578	93,322,502
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	5,229,941,637	6,071,135,836	7,091,939,335	7,487,415,126	7,819,919,514
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 12.1)	164,086,680	356,034,235	777,405,905	323,877,293	298,332,195
20.2 Deferred and not yet due (Line 12.2)	145,990,451	678,274,662	540,729,268	805,877,167	719,210,959
20.3 Accrued retrospective premiums (Line 12.3)	157,532,537	123,216,344	103,691,449	105,384,526	101,435,713
21. Total liabilities excluding protected cell business (Page 3, Line 24)	5,027,515,672	5,374,289,793	5,825,363,930	5,674,144,795	5,415,526,275
22. Losses (Page 3, Lines 1 and 2)	3,164,243,055	2,744,057,644	2,498,853,925	2,305,711,636	2,608,093,357
23. Loss adjustment expenses (Page 3, Line 3)	729,758,862	771,410,165	728,701,033	898,256,841	844,142,155
24. Unearned premiums (Page 3, Line 9)	111,595,492	269,409,686	969,717,025	1,009,504,613	928,772,097
25. Capital paid up (Page 3, Lines 28 & 29)	0	0	0	0	0
26. Surplus as regards policyholders (Page 3, Line 35)	202,425,965	696,846,043	1,266,575,405	1,813,270,331	2,404,393,239
Risk-Based Capital Analysis					
27. Total adjusted capital	182,973,965	507,183,043	1,058,470,405	1,693,839,331	2,302,725,239
28. Authorized control level risk-based capital	545,728,319	610,695,127	481,424,171	373,272,222	381,958,332
Percentage Distribution of Cash and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
29. Bonds (Line 1)	41.9	34.0	69.0	63.1	55.1
30. Stocks (Lines 2.1 & 2.2)	7.1	31.6	17.6	18.3	37.2
31. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.4	1.3	1.3	0.6	0.6
32. Real estate (Lines 4.1, 4.2 & 4.3)	1.0	2.6	2.3	2.1	2.0
33. Cash and short-term investments (Line 5)	46.9	26.6	5.0	12.0	1.8
34. Contract loans (Line 6)	0.0	XXX	XXX	XXX	XXX
35. Other invested assets (Line 7)	2.6	3.8	4.9	3.8	3.3
36. Receivable for securities (Line 8)	0.1	0.0	0.0	0.1	0.0
37. Aggregate write-ins for invested assets (Line 9)	0.0	0.0	0.0	0.0	0.0
38. Cash and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
39. Affiliated Bonds (Schedule D, Summary, Line 25, Col. 1)	0	0	0	0	41,642,126
40. Affiliated preferred stocks (Schedule D, Summary, Line 39, Col. 1)	0	3,116,162	(17,383)	8,634,787	11,705,114
41. Affiliated common stocks (Schedule D, Summary, Line 53, Col. 2)	260,674,361	1,280,052,573	822,326,498	955,863,556	967,602,633
42. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 11)	0	0	0	0	0
43. Affiliated mortgage loans on real estate	0	0	0	0	0
44. All other affiliated	0	0	0	0	0
45. Total of above Lines 39 to 44	260,674,361	1,283,168,735	822,309,115	964,498,343	1,020,949,873
46. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 45 above divided by Page 3, Col. 1, Line 35 x 100.0)	128.8	184.1	64.9	53.2	42.5

ANNUAL STATEMENT FOR THE YEAR 2003 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2003	2 2002	3 2001	4 2000	5 1999
Capital and Surplus Accounts (Page 4)					
47. Net unrealized capital gains (Losses) (Line 23)	107,581,822	(178,437,296)	261,845,166	(332,783,385)	49,945,930
48. Dividends to stockholders (Line 34)	0	0	0	0	0
49. Change in surplus as regards policyholders for the year (Line 37)	(494,420,078)	(569,729,362)	(546,694,926)	(591,122,908)	86,224,460
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
50. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	872,848,164	1,602,451,470	1,545,234,760	1,451,487,070	1,195,206,755
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	170,514,662	221,615,571	501,788,118	335,529,121	235,554,721
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	382,980,743	420,217,007	458,460,802	537,230,998	567,385,992
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	232,581,726	110,953,811	87,065,980	57,719,817	22,543,660
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	27,030,651	19,227,534	15,066,279	24,675,159	30,524,300
55. Total (Line 34)	1,685,955,946	2,374,465,393	2,607,615,939	2,406,642,165	2,051,215,428
Net Losses Paid (Page 9, Part 2, Col. 4)					
56. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	(429,172,796)	866,964,638	985,881,127	937,866,422	798,809,051
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	4,758,282	103,134,158	163,131,344	226,384,148	152,274,192
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	41,906,617	213,771,971	287,835,303	290,134,634	310,398,196
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	(78,530)	39,378,931	35,286,365	20,520,153	10,496,336
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(2,558,166)	5,351,147	6,390,461	15,659,526	16,271,582
61. Total (Line 34)	(385,144,593)	1,228,600,845	1,478,524,600	1,490,564,883	1,288,249,357
Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
62. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
63. Losses incurred (Line 2)	(5.4)	77.1	70.3	55.3	49.3
64. Loss expenses incurred (Line 3)	(6.4)	20.8	13.0	18.8	22.0
65. Other underwriting expenses incurred (Line 4)	84.3	18.4	28.5	28.8	30.5
66. Net underwriting gain (loss) (Line 8)	25.6	(16.3)	(11.5)	(3.0)	(1.9)
Other Percentages					
67. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 34 x 100.0)	242.5	16.7	19.7	27.4	30.1
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	(11.8)	97.9	83.3	74.1	71.3
69. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 34 divided by Page 3, Line 35, Col. 1 x 100.0)	118.8	100.1	148.5	118.4	77.0
One Year Loss Development (000 omitted)					
70. Development in estimated losses and loss expenses incurred prior to current year (Schedule P - Part 2 - Summary, Line 12, Col. 11)	108,673	733,358	410,264	117,537	(113,216)
71. Percent of development of loss and loss expenses incurred to policyholders' surplus of prior year end (Line 70 above divided by Page 4, Line 21, Col. 1 x 100.0)	15.6	57.9	22.6	4.9	(4.9)
Two Year Loss Development (000 omitted)					
72. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2 - Summary, Line 12, Col. 12)	1,086,807	893,054	523,624	(125,662)	(371,303)
73. Percent of development of loss and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 72 above divided by Page 4, Line 21, Col. 2 x 100.0)	85.8	49.3	21.8	(5.4)	(17.2)

SCHEDULE D - SUMMARY BY COUNTRY

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

Description	1 Book/Adjusted Carrying Value	2 Fair Value (a)	3 Actual Cost	4 Par Value of Bonds
BONDS				
Governments (Including all obligations guaranteed by governments)	1. United States 564,018,647 2. Canada 8,609,214 3. Other Countries 1,923,833 4. Totals 574,551,695	562,440,538 8,793,058 1,991,785 573,225,381	564,686,451 8,689,039 1,849,576 575,225,065	554,414,272 8,575,000 1,880,000 564,869,272
States, Territories and Possessions (Direct and guaranteed)	5. United States 0 6. Canada 11,886,249 7. Other Countries 0 8. Totals 11,886,249	0 12,226,410 0 12,226,410	0 12,330,150 0 12,330,150	0 11,415,000 0 11,415,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States 0 10. Canada 0 11. Other Countries 0 12. Totals 0	0 0 0 0	0 0 0 0	0 0 0 0
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States 525,021,277 14. Canada 0 15. Other Countries 0 16. Totals 525,021,277	532,133,336 0 0 532,133,336	528,837,130 0 0 528,837,130	510,791,346 0 0 510,791,346
Public Utilities (unaffiliated)	17. United States 23,414,488 18. Canada 0 19. Other Countries 0 20. Totals 23,414,488	23,372,285 0 0 23,372,285	23,752,438 0 0 23,752,438	20,500,000 0 0 20,500,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States 514,565,584 22. Canada 0 23. Other Countries 23,912,566 24. Totals 538,478,152	518,919,997 0 25,057,976 543,977,974	517,070,038 0 24,366,514 541,436,552	504,188,339 0 22,005,000 526,193,339
Parent, Subsidiaries and Affiliates	25. Totals 0 26. Total Bonds 1,673,351,862	0 1,684,935,384	0 1,681,581,328	0 1,633,768,957
PREFERRED STOCKS				
Public Utilities (unaffiliated)	27. United States 0 28. Canada 0 29. Other Countries 0 30. Totals 0	0 0 0 0	0 0 0 0	0 0 0 0
Banks, Trust and Insurance Companies (unaffiliated)	31. United States 10,382,947 32. Canada 0 33. Other Countries 0 34. Totals 10,382,947	11,397,600 0 0 11,397,600	10,382,947 0 0 10,382,947	0 0 0 0
Industrial and Miscellaneous (unaffiliated)	35. United States 3,005,340 36. Canada 0 37. Other Countries 0 38. Totals 3,005,340	3,097,977 0 0 3,097,977	1,098,340 0 0 1,098,340	0 0 0 0
Parent, Subsidiaries and Affiliates	39. Totals 0 40. Total Preferred Stocks 13,388,287	0 14,495,577	0 11,481,287	0 0
COMMON STOCKS				
Public Utilities (unaffiliated)	41. United States 0 42. Canada 0 43. Other Countries 0 44. Totals 0	0 0 0 0	0 0 0 0	0 0 0 0
Banks, Trust and Insurance Companies (unaffiliated)	45. United States 1,960,363 46. Canada 0 47. Other Countries 0 48. Totals 1,960,363	1,960,363 0 0 1,960,363	1,664,059 0 0 1,664,059	0 0 0 0
Industrial and Miscellaneous (unaffiliated)	49. United States 5,905,957 50. Canada 8,009 51. Other Countries 169,994 52. Totals 6,083,960	5,905,957 8,009 169,994 6,083,960	2,293,142 8,009 160,888 2,462,039	0 0 0 0
Parent, Subsidiaries and Affiliates	53. Totals 260,674,361 54. Total Common Stocks 268,718,684	260,674,361 268,718,684	208,865,203 212,991,301	0 0
	55. Total Stocks 282,106,971 56. Total Bonds and Stocks 1,955,458,832	283,214,261 1,968,149,645	224,472,588 1,906,053,916	0 0

(a) The aggregate value of bonds which are valued at other than actual fair value is \$0 .

SCHEDULE D - VERIFICATION BETWEEN YEARS

1. Book/adjusted carrying value of bonds and stocks, prior year 2,719,447,047	6. Foreign Exchange Adjustment:
2. Cost of bonds and stocks acquired, Column 6, Part 3 1,509,551,567	6.1 Column 17, Part 1 202,376
3. Increase (decrease) by adjustment:	6.2 Column 13, Part 2, Sec. 1 0
3.1 Column 16, Part 1 (21,128,089)	6.3 Column 11, Part 2, Sec. 2 0
3.2 Column 12, Part 2, Sec. 1 (3,117,678)	6.4 Column 11, Part 4 (88,057) 114,319
3.3 Column 10, Part 2, Sec. 2 (116,983,990)	7. Book/adjusted carrying value at end of current period 1,955,458,832
3.4 Column 10, Part 4 28,679,430 (112,550,326)	8. Total valuation allowance 0
4. Total gain (loss), Col. 14, Part 4 (73,406,005)	9. Subtotal (Lines 7 plus 8) 1,955,458,832
5. Deduct consideration for bonds and stocks disposed of Column 6, Part 4 2,087,697,770	10. Total nonadmitted amounts 0
	11. Statement value of bonds and stocks, current period 1,955,458,832

ANNUAL STATEMENT FOR THE YEAR 2003 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	132,292	26,904	51,704	855	1,328	507	1,242	157,059	XXX
2. 1994	3,298,199	282,267	3,015,932	1,795,673	265,498	175,428	36,409	109,493	606	62,576	1,778,081	XXX
3. 1995	3,088,779	258,933	2,829,846	1,590,595	122,805	134,254	12,633	96,318	514	59,727	1,685,215	XXX
4. 1996	3,087,094	298,118	2,788,976	1,623,383	121,627	145,142	16,580	112,610	935	67,824	1,741,994	XXX
5. 1997	3,179,134	256,693	2,922,441	1,788,486	164,183	157,630	12,483	118,925	2,543	70,371	1,885,832	XXX
6. 1998	3,283,749	455,427	2,828,322	2,318,451	527,480	196,728	41,507	154,601	5,208	72,165	2,095,585	XXX
7. 1999	3,338,595	888,663	2,449,932	2,313,292	813,777	216,894	57,655	173,012	8,661	92,814	1,823,105	XXX
8. 2000	3,723,754	1,067,553	2,656,201	2,285,477	784,981	190,058	52,652	262,508	19,395	203,499	1,881,015	XXX
9. 2001	4,776,690	2,304,460	2,472,230	2,205,938	882,818	176,981	38,394	294,946	54,594	104,371	1,702,059	XXX
10. 2002	4,528,662	2,631,131	1,897,531	967,205	443,589	64,042	33,667	196,666	94,213	29,125	656,443	XXX
11. 2003	2,597,722	2,164,948	432,774	225,632	313,912	(2,386)	13,288	34,546	11,933	3,664	(81,341)	XXX
12. Totals	XXX	XXX	XXX	17,246,424	4,467,574	1,506,475	316,123	1,554,953	199,109	767,378	15,325,046	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.	1,195,927	424,729	272,156	(57,199)	200,576	7,140	124,006	158,074	10,578	1,679	1,149	1,268,819	XXX
2.	122,411	35,141	9,757	10,575	7,080	2,977	8,826	(415)	1,810	269	438	101,337	XXX
3.	83,479	13,817	12,775	(529)	6,032	264	9,518	2,412	1,875	281	589	97,434	XXX
4.	105,371	16,296	17,456	7,825	6,310	796	11,639	2,548	2,276	391	1,234	115,196	XXX
5.	160,688	31,657	37,395	2,741	10,708	1,638	18,630	3,965	3,681	617	2,902	190,484	XXX
6.	264,514	53,519	27,304	18,254	18,552	3,278	24,953	2,522	5,936	994	4,035	262,692	XXX
7.	348,738	162,740	332,864	257,846	32,871	8,146	31,974	19,428	10,545	1,764	11,405	307,068	XXX
8.	450,115	238,038	270,635	191,089	55,024	25,805	71,774	45,825	19,740	3,344	11,746	363,186	XXX
9.	675,041	368,991	471,980	219,977	53,882	14,646	89,267	51,202	31,236	5,180	16,698	661,410	XXX
10.	512,155	180,952	779,917	544,739	50,177	15,606	134,857	80,254	44,438	7,466	21,204	692,526	XXX
11.	289,602	135,736	694,755	352,927	21,863	9,163	117,038	57,092	52,065	6,172	19,724	614,233	XXX
12. Totals	4,208,041	1,661,616	2,926,994	1,548,245	463,075	89,459	642,482	422,907	184,178	28,158	91,124	4,674,385	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	347,293	2,787	XXX	753,260	165,479
2.	2,230,478	351,061	1,879,418	67.6	124.4	62.3	28,020	386		58,432	14,499
3.	1,934,847	152,198	1,782,649	62.6	58.8	63.0	24,457	454		58,509	14,014
4.	2,024,187	166,998	1,857,189	65.6	56.0	66.6	29,922	589		68,784	15,901
5.	2,296,143	219,826	2,076,316	72.2	85.6	71.0	38,474	851		125,211	25,948
6.	3,011,038	652,762	2,358,276	91.7	143.3	83.4	54,199	1,366		165,846	41,281
7.	3,460,190	1,330,017	2,130,173	103.6	149.7	86.9	51,380	1,784		209,636	44,268
8.	3,605,331	1,361,130	2,244,201	96.8	127.5	84.5	46,822	2,551		244,801	69,012
9.	3,999,271	1,635,802	2,363,469	83.7	71.0	95.6	72,957	3,973		485,096	99,384
10.	2,749,456	1,400,487	1,348,969	60.7	53.2	71.1	72,751	2,723		493,630	123,422
11.	1,433,115	900,223	532,892	55.2	41.6	123.1	64,686	1,988		431,008	116,551
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	830,961	19,452	XXX	3,094,213	729,759

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 2003 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
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	One Year	Two Year
1. Prior	4,083,954	4,050,196	4,063,773	4,110,374	3,964,616	4,112,028	3,994,702	4,576,973	4,684,691	4,607,326	(77,365)	30,353
2. 1994	2,247,595	2,101,088	2,074,874	1,828,712	1,794,286	1,792,782	1,761,723	1,772,275	1,774,538	1,785,355	10,817	13,080
3. 1995	XXX	1,993,013	1,930,812	1,928,044	1,740,122	1,715,881	1,697,554	1,691,682	1,680,965	1,701,068	20,103	9,386
4. 1996	XXX	XXX	2,003,868	1,883,074	1,924,352	1,735,622	1,752,444	1,737,242	1,738,406	1,759,625	21,219	22,383
5. 1997	XXX	XXX	XXX	2,009,337	1,966,974	1,918,759	1,901,720	1,914,927	1,958,619	1,974,725	16,106	59,798
6. 1998	XXX	XXX	XXX	XXX	2,051,305	2,026,769	2,171,946	2,138,558	2,222,606	2,222,486	(120)	83,928
7. 1999	XXX	XXX	XXX	XXX	XXX	1,691,083	1,863,880	1,846,588	1,936,001	1,964,823	28,822	118,235
8. 2000	XXX	XXX	XXX	XXX	XXX	XXX	1,610,206	1,618,950	1,924,181	1,992,791	68,610	373,841
9. 2001	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,728,348	2,055,038	2,104,151	49,113	375,803
10. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,250,837	1,222,205	(28,632)	XXX
11. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	470,626	XXX	XXX
12. Totals											108,673	1,086,807

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
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003		
1. Prior	.000	956,068	1,670,153	2,053,892	2,343,532	2,551,881	2,782,998	2,992,879	3,075,470	3,231,707	XXX	XXX
2. 1994	608,929	1,047,480	1,279,707	1,430,531	1,526,907	1,577,469	1,616,756	1,637,191	1,652,529	1,669,194	XXX	XXX
3. 1995	XXX	631,963	1,039,400	1,248,125	1,384,425	1,459,162	1,512,670	1,547,930	1,568,307	1,589,411	XXX	XXX
4. 1996	XXX	XXX	667,236	1,074,070	1,289,299	1,400,653	1,509,541	1,569,977	1,606,468	1,630,318	XXX	XXX
5. 1997	XXX	XXX	XXX	653,265	1,110,163	1,340,057	1,519,030	1,633,102	1,705,525	1,769,450	XXX	XXX
6. 1998	XXX	XXX	XXX	XXX	721,916	1,245,640	1,552,087	1,761,112	1,902,492	1,946,192	XXX	XXX
7. 1999	XXX	XXX	XXX	XXX	XXX	686,918	1,185,332	1,466,033	1,627,526	1,658,754	XXX	XXX
8. 2000	XXX	XXX	XXX	XXX	XXX	XXX	759,838	1,237,516	1,532,059	1,637,902	XXX	XXX
9. 2001	XXX	XXX	XXX	XXX	XXX	XXX	XXX	727,783	1,210,266	1,461,707	XXX	XXX
10. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	459,740	553,991	XXX	XXX
11. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(103,954)	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
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1. Prior	1,641,479	1,141,750	744,374	690,708	479,587	532,766	277,152	602,530	570,022	304,838
2. 1994	1,166,650	716,727	536,368	214,009	139,835	107,455	50,893	14,616	1,143	9,871
3. 1995	XXX	933,792	590,368	432,490	177,636	114,815	64,260	47,696	15,552	21,781
4. 1996	XXX	XXX	888,558	516,627	410,130	138,272	88,946	47,057	12,717	19,150
5. 1997	XXX	XXX	XXX	839,586	474,582	274,170	144,503	89,366	58,311	50,087
6. 1998	XXX	XXX	XXX	XXX	780,984	334,188	268,098	75,630	54,756	35,428
7. 1999	XXX	XXX	XXX	XXX	XXX	570,957	301,863	68,238	160,881	88,375
8. 2000	XXX	XXX	XXX	XXX	XXX	XXX	550,986	43,166	157,507	104,598
9. 2001	XXX	XXX	XXX	XXX	XXX	XXX	XXX	614,611	409,730	294,420
10. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	482,914	292,680
11. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	406,590

ANNUAL STATEMENT FOR THE YEAR 2003 OF THE LUMBERMENS MUTUAL CASUALTY COMPANY

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

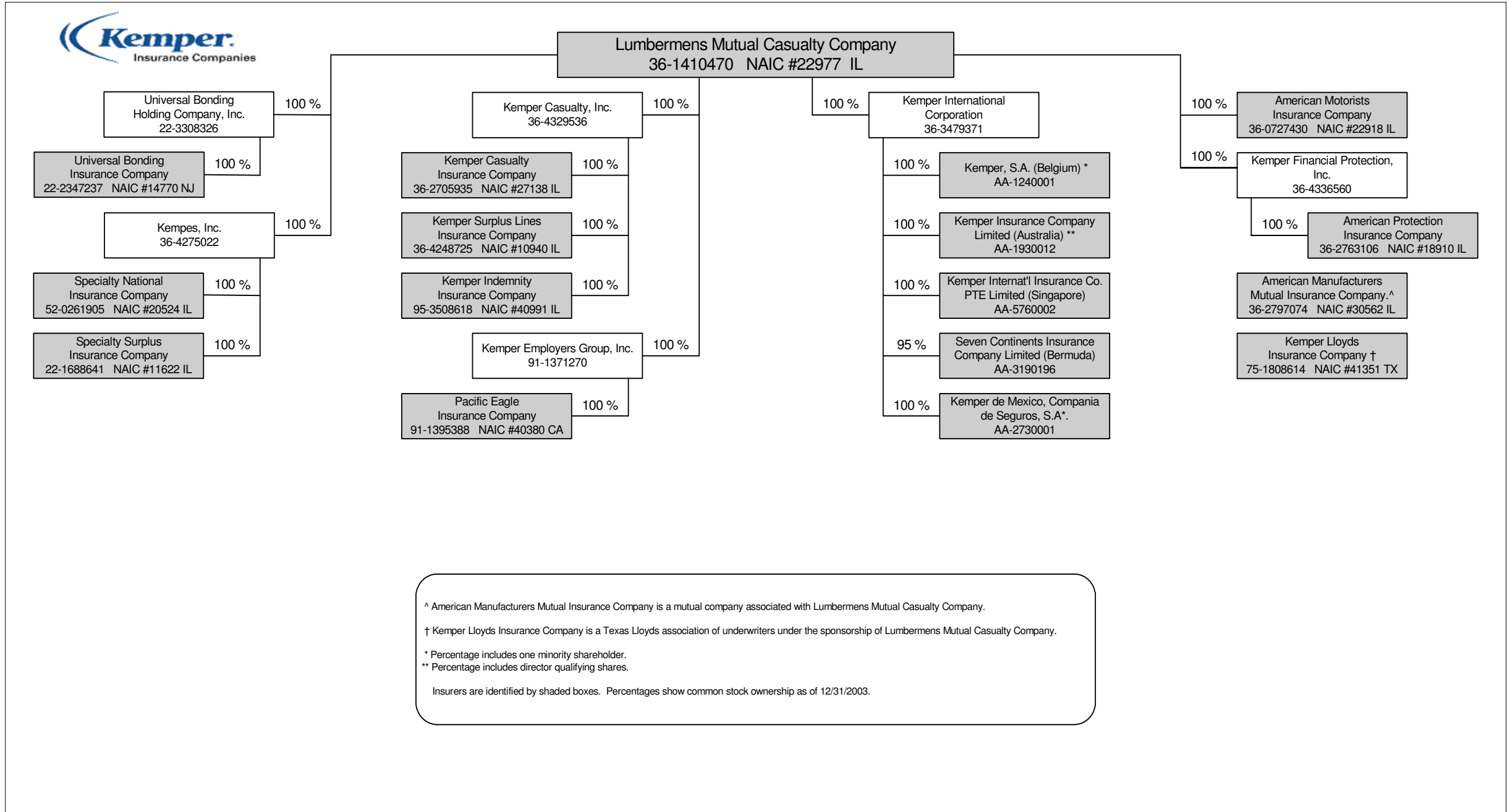
1 States, etc.	2 Is Insurer Licensed? (Yes or No)	3 Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)	
		Direct Premiums Written	Direct Premiums Earned							
1. Alabama	AL	Yes	502,407	7,275,470	(18,591)	6,041,293	18,946,925	35,140,991	638	14,131
2. Alaska	AK	Yes	(119,146)	1,529,085	22,432	15,179,622	11,980,182	5,292,972	255	
3. Arizona	AZ	Yes	1,857,965	12,344,170	30,372	9,404,077	11,921,053	26,251,571	264	564,204
4. Arkansas	AR	Yes	(975,192)	1,091,487	39,337	3,433,897	1,908,325	5,507,202	0	
5. California	CA	Yes	57,304,720	170,873,849	126,379	185,982,742	214,199,281	419,961,421	0	849,765
6. Colorado	CO	Yes	699,978	11,299,309	(56,229)	1,287,944	7,531,126	18,164,098	0	(2,195)
7. Connecticut	CT	Yes	(1,922,604)	24,935,752	(67,101)	21,212,629	172,267,250	254,118,393	6,331	263,791
8. Delaware	DE	Yes	(295,703)	1,370,819	(9,169)	678,592	(578,676)	2,841,642	558	28,840
9. District of Columbia	DC	Yes	(35,163)	3,289,962	(10,886)	2,990,141	1,727,723	23,479,280	1,543	312,444
10. Florida	FL	Yes	31,206,288	57,439,046	36,911	35,286,153	66,345,078	123,321,022	114,804	638,916
11. Georgia	GA	Yes	14,414,520	32,614,216	431,661	121,165,960	28,886,013	28,689,681	93,974	35,573
12. Hawaii	HI	Yes	3,448,032	5,421,419	(18,820)	1,858,871	6,014,765	8,633,717	0	
13. Idaho	ID	Yes	484,896	2,284,046	(95,556)	1,573,403	2,968,760	2,528,731	421	
14. Illinois	IL	Yes	(38,835,657)	14,718,885	(585,849)	85,955,825	(141,233,390)	61,761,232	125,514	103,987
15. Indiana	IN	Yes	489,402	6,039,487	93,876	8,915,871	11,353,054	18,462,407	0	722,234
16. Iowa	IA	Yes	(518,705)	3,890,487	(168,693)	5,318,124	940,446	9,095,684	3,469	
17. Kansas	KS	Yes	(1,478,041)	4,327,991	40,461	1,492,011	(5,665,629)	(2,763,355)	6,076	(47,297)
18. Kentucky	KY	Yes	3,153,893	6,531,043	68,960	5,379,979	4,874,318	42,611,929	20,387	
19. Louisiana	LA	Yes	3,493,337	9,082,693	135,911	5,416,555	13,227,714	20,305,566	17,038	
20. Maine	ME	Yes	(63,745)	965,640	18,372	479,785	(758,292)	(603,756)	0	65,468
21. Maryland	MD	Yes	2,443,543	15,053,557	(429,151)	52,847,407	2,202,553	7,761,421	31,539	32,036
22. Massachusetts	MA	Yes	(4,074,533)	24,215,234	154,302	14,234,767	17,076,275	68,371,124	385	529,495
23. Michigan	MI	Yes	7,853,274	20,910,946	59,303	21,951,024	19,812,143	62,378,313	0	4,831
24. Minnesota	MN	Yes	2,619,743	16,234,947	(664,266)	8,097,161	1,086,269	30,721,168	31,846	448,208
25. Mississippi	MS	Yes	2,406,430	5,360,873	86,702	6,248,005	33,292,232	31,855,607	8,744	22,445
26. Missouri	MO	Yes	3,109,465	12,902,913	439,647	8,196,328	18,474,415	26,478,010	0	93,083
27. Montana	MT	Yes	356,801	1,104,230	(158,163)	1,275,386	1,115,443	3,823,824	0	
28. Nebraska	NE	Yes	1,264,849	3,571,790	42,988	1,750,257	1,965,296	5,233,246	0	
29. Nevada	NV	Yes	2,632,508	7,227,566	143,386	5,066,103	19,769,846	30,016,030	0	240,700
30. New Hampshire	NH	Yes	340,543	4,327,991	43,476	1,164,609	(2,419,992)	6,921,504	0	133,272
31. New Jersey	NJ	Yes	(68,330,671)	(29,027,789)	125,707	68,030,156	107,085,994	199,370,534	0	568,869
32. New Mexico	NM	Yes	686,717	2,934,094	(16,243)	3,470,726	6,254,202	13,605,323	0	(2,687)
33. New York	NY	Yes	6,934,952	93,826,973	39,855	179,518,628	124,806,212	411,680,734	273,533	123,004
34. North Carolina	NC	Yes	13,137,317	32,445,858	198,205	28,325,096	(13,325,886)	16,889,698	140,090	1,352,851
35. North Dakota	ND	Yes	232,140	626,268	342	356,088	530,053	550,994	832	2,118
36. Ohio	OH	Yes	4,929,028	21,942,986	60,044	10,218,530	1,879,564	29,892,952	29,671	762,041
37. Oklahoma	OK	Yes	(347,284)	4,434,293	161,370	4,311,666	6,807,484	11,550,770	0	(696)
38. Oregon	OR	Yes	(1,273,763)	3,502,300	(227,852)	4,015,495	6,765,871	20,086,267	183	
39. Pennsylvania	PA	Yes	1,659,093	25,122,249	399,176	(29,263,778)	(201,148,990)	36,970,814	1,974	537,556
40. Rhode Island	RI	Yes	(177,187)	2,419,987	99,805	1,292,243	162,963	8,051,525	745	28,139
41. South Carolina	SC	Yes	5,526,472	11,688,463	(20,187)	10,044,084	16,407,553	18,274,423	38,504	907
42. South Dakota	SD	Yes	6,402	713,250	21,427	288,800	(941,477)	10,711,385	0	
43. Tennessee	TN	Yes	4,169,373	13,181,877	120,019	5,366,953	(933,852)	16,913,768	12,950	220,414
44. Texas	TX	Yes	(15,900,313)	39,293,139	953,400	175,008,479	52,114,998	239,495,486	24,302	
45. Utah	UT	Yes	237,098	2,699,129	(96,678)	2,972,809	20,318,425	27,459,997	56	88,192
46. Vermont	VT	Yes	19,983	680,056	14,114	477,910	(1,207,945)	(14,230)	0	25,161
47. Virginia	VA	Yes	4,021,208	19,078,905	13,436	19,014,621	25,174,402	41,599,621	65,466	1,757,524
48. Washington	WA	Yes	3,017,238	13,195,919	(60,528)	15,830,560	10,678,355	44,572,894	1,907	23,492
49. West Virginia	WV	Yes	256,545	775,841	28,181	201,030	51,922	191,376	0	
50. Wisconsin	WI	Yes	(738,214)	10,622,575	2,185,710	19,841,648	43,443,284	55,254,608	48,933	(7,280)
51. Wyoming	WY	Yes	578,543	809,837	(12,733)	18,619	280,611	841,472	0	
52. American Samoa	AS	Yes	0	0	0	0	746	746	0	
53. Guam	GU	Yes	44,452	44,454	0	2,090	(1,932)	15,307	0	
54. Puerto Rico	PR	Yes	10,995	11,527	0	12,945,863	142,570	(12,802,006)	0	
55. U.S. Virgin Islands	VI	Yes	0	0	0	0	0	104	0	
56. Canada	CN	Yes	2,057,357	4,028,591	(142,692)	7,866,533	2,494,508	15,753,370	0	
57. Aggregate Other Aliens	OT	XXX	(43,691,756)	(1,086,225)	2,904,027	6,040,088	(3,148,687)	11,900,151	0	0
58. Totals	(a) 55		8,829,829	760,204,824	6,479,908	1,186,079,461	743,921,455	2,595,178,755	1,102,932	10,566,867
DETAILS OF WRITE-INS										
5701. Asia	XXX		(887,655)	2,929,222	0	937,994	(396,110)	5,880,184	0	0
5702. Australia	XXX		527,087	911,407	0	0	952,769	1,659,864	0	0
5703. Europe	XXX		631,121	3,961,586	0	4,689,335	(1,877,634)	4,440,500	0	0
5798. Summary of remaining write-ins for Line 57 from overflow page	XXX		(43,962,310)	(8,888,439)	2,904,027	412,759	(1,827,712)	(80,397)	0	0
5799. Totals (Lines 5701 thru 5703 plus 5798) (Line 57 above)	XXX		(43,691,756)	(1,086,225)	2,904,027	6,040,088	(3,148,687)	11,900,151	0	0

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

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

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

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP
PART 1 - ORGANIZATIONAL CHART



^ American Manufacturers Mutual Insurance Company is a mutual company associated with Lumbermens Mutual Casualty Company.
 † Kemper Lloyds Insurance Company is a Texas Lloyds association of underwriters under the sponsorship of Lumbermens Mutual Casualty Company.
 * Percentage includes one minority shareholder.
 ** Percentage includes director qualifying shares.
 Insurers are identified by shaded boxes. Percentages show common stock ownership as of 12/31/2003.

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