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PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2003

OF THE CONDITION AND AFFAIRS OF THE

AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY

NAIC Group Code 0108 (Current Period) 0108 (Prior Period) NAIC Company Code 30562 Employer's ID Number 36-2797074

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

Country of Domicile United States of America

Incorporated 03/29/1837 Commenced Business 08/13/1837

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 # Frederick Otto Kist

DIRECTORS OR TRUSTEES

John Thomas Chain Jr.	James Robert Edgar	Roberta Segal Karmel
Arthur James Massolo #	David Barrett Mathis	John Edward Porter
Zachary Layne Stamp #		

State of Illinois
County of Lake } ss

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

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

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)	4,331,528		4,331,528	420,076,931
2. Stocks (Schedule D):				
2.1 Preferred stocks	0		0	2,630
2.2 Common stocks	0		0	442,508
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens			0	3,638,141
3.2 Other than first liens			0	128,963
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less $ encumbrances)			0	0
4.2 Properties held for the production of income (less $ encumbrances)			0	0
4.3 Properties held for sale (less $ encumbrances)			0	0
5. Cash ($ 126,782 , Schedule E, Part 1), cash equivalents ($ 3,799,475 , Schedule E, Part 2) and short -term investments ($ 1,659,328 , Schedule DA)	5,585,585		5,585,585	19,584,089
6. Contract loans, (including $ premium notes)			0	0
7. Other invested assets (Schedule BA)	0	0	0	14,209,559
8. Receivable for securities			0	0
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	9,917,113	0	9,917,113	458,082,821
11. Investment income due and accrued	137,367		137,367	4,107,985
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in the course of collection			0	28,370,568
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ earned but unbilled premium)			0	70,470,095
12.3 Accrued retrospective premium			0	12,801,698
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers			0	0
13.2 Funds held by or deposited with reinsured companies			0	0
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	2,078,497
15.2 Net deferred tax asset	104,346,251	104,346,251	0	5,753,734
16. Guaranty funds receivable or on deposit			0	110,592
17. Electronic data processing equipment and software			0	346,180
18. Furniture and equipment, including health care delivery assets ($)			0	0
19. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
20. Receivables from parent, subsidiaries and affiliates			0	5,959,871
21. Health care ($) and other amounts receivable			0	0
22. Other assets nonadmitted			0	0
23. Aggregate write-ins for other than invested assets	0	0	0	43,688,574
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	114,400,731	104,346,251	10,054,480	631,770,615
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
26. Total (Lines 24 and 25)	114,400,731	104,346,251	10,054,480	631,770,615
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			0	17,886,286
2302. Advance to claim service provider			0	9,294,065
2303. Rabbi Trust assets			0	3,243,792
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	13,264,431
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	0	0	0	43,688,574

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	0	282,317,858
2. Reinsurance payable on paid loss and loss adjustment expenses (Schedule F, Part 1, Column 6)		0
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	0	78,352,329
4. Commissions payable, contingent commissions and other similar charges		4,272,826
5. Other expenses (excluding taxes, licenses and fees)	54,480	16,523,338
6. Taxes, licenses and fees (excluding federal and foreign income taxes)		4,878,405
7.1 Current federal and foreign income taxes (including $ 0 on realized capital gains (losses))		0
7.2 Net deferred tax liability		0
8. Borrowed money $ and interest thereon $		0
9. Unearned premiums (Part 1A, Line 37, Column 5) (after deducting unearned premiums for ceded reinsurance of $ 63,862,362 and including warranty reserves of $ 0)	0	27,742,713
10. Advance premiums		2,201,354
11. Dividends declared and unpaid:		
11.1 Stockholders		0
11.2 Policyholders		2,619,901
12. Ceded reinsurance premiums payable (net of ceding commissions)		0
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)		0
14. Amounts withheld or retained by company for account of others		28,298,764
15. Remittances and items not allocated		12,486,233
16. Provision for reinsurance (Schedule F, Part 7)	0	0
17. Net adjustments in assets and liabilities due to foreign exchange rates		0
18. Drafts outstanding		0
19. Payable to parent, subsidiaries and affiliates		0
20. Payable for securities		0
21. Liability for amounts held under uninsured accident and health plans		0
22. Capital Notes $ and interest thereon $		0
23. Aggregate write-ins for liabilities	0	(58,662,447)
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	54,480	401,031,274
25. Protected cell liabilities		0
26. Total liabilities (Lines 24 and 25)	54,480	401,031,274
27. Aggregate write-ins for special surplus funds	0	36,249,284
28. Common capital stock		0
29. Preferred capital stock		0
30. Aggregate write-ins for other than special surplus funds	1,500,000	1,500,000
31. Surplus notes		0
32. Gross paid in and contributed surplus		0
33. Unassigned funds (surplus)	8,500,000	192,990,057
34. Less treasury stock, at cost:		
34.1 shares common (value included in Line 28 $)		0
34.2 shares preferred (value included in Line 29 $)		0
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 38)	10,000,000	230,739,341
36. TOTALS (Page 2, Line 26, Col. 3)	10,054,480	631,770,615
DETAILS OF WRITE-INS		
2301. Retroactive reinsurance recoverable		(121,309,390)
2302. Reinsurance funds held related to retroactive reinsurance		34,070,408
2303. Minimum pension liability		18,062,059
2398. Summary of remaining write-ins for Line 23 from overflow page	0	10,514,476
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	0	(58,662,447)
2701. Special surplus from retroactive reinsurance contract		36,249,284
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page	0	0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above)	0	36,249,284
3001. Guaranty fund	1,500,000	1,500,000
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above)	1,500,000	1,500,000

UNDERWRITING AND INVESTMENT EXHIBIT STATEMENT OF INCOME

		1 Current Year	2 Prior Year
	UNDERWRITING INCOME		
1.	Premiums earned (Part 1, Line 34, Column 4)	34,399,165	151,273,733
	DEDUCTIONS		
2.	Losses incurred (Part 2, Line 34, Column 7)	(2,087,926)	116,398,544
3.	Loss expenses incurred (Part 3, Line 25, Column 1)	(2,290,836)	29,885,949
4.	Other underwriting expenses incurred (Part 3, Line 25, Column 2)	27,706,563	26,107,584
5.	Aggregate write-ins for underwriting deductions	678,841	0
6.	Total underwriting deductions (Lines 2 through 5)	24,006,642	172,392,077
7.	Net income of protected cells		0
8.	Net underwriting gain or (loss) (Line 1 minus Line 6 plus Line 7)	10,392,523	(21,118,344)
	INVESTMENT INCOME		
9.	Net investment income earned (Exhibit of Net Investment Income, Line 17)	17,991,949	26,779,984
10.	Net realized capital gains or (losses) (Exhibit of Capital Gains (Losses))	7,642,079	(7,430,632)
11.	Net investment gain or (loss) (Lines 9 + 10)	25,634,028	19,349,352
	OTHER INCOME		
12.	Net gain or (loss) from agents' or premium balances charged off (amount recovered $ 49,471 amount charged off $ 1,127,765)	(1,078,294)	(790,556)
13.	Finance and service charges not included in premiums	114,590	757,329
14.	Aggregate write-ins for miscellaneous income	(269,616,229)	15,634,823
15.	Total other income (Lines 12 through 14)	(270,579,933)	15,601,596
16.	Net income before dividends to policyholders and before federal and foreign income taxes (Lines 8 + 11 + 15)	(234,553,382)	13,832,604
17.	Dividends to policyholders	1,488,287	5,765,698
18.	Net income, after dividends to policyholders but before federal and foreign income taxes (Line 16 minus Line 17)	(236,041,669)	8,066,906
19.	Federal and foreign income taxes incurred	(9,534,383)	(11,156,272)
20.	Net income (Line 18 minus Line 19) (to Line 22)	(226,507,286)	19,223,178
	CAPITAL AND SURPLUS ACCOUNT		
21.	Surplus as regards policyholders, December 31 prior year (Page 4, Line 38, Column 2)	230,739,341	237,983,909
	GAINS AND (LOSSES) IN SURPLUS		
22.	Net income (from Line 20)	(226,507,286)	19,223,178
23.	Change in net unrealized capital gains or (losses)	(910,745)	561,653
24.	Change in net unrealized foreign exchange capital gain (loss)		0
25.	Change in net deferred income tax	80,102,524	(1,345,321)
26.	Change in nonadmitted assets (Exhibit 1, Line 5, Col. 3)	(73,423,834)	(7,704,805)
27.	Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	0	0
28.	Change in surplus notes		0
29.	Surplus (contributed to) withdrawn from protected cells		0
30.	Cumulative effect of changes in accounting principles		11,568,485
31.	Capital changes:		
	31.1. Paid in		0
	31.2. Transferred from surplus (Stock Dividend)		0
	31.3. Transferred to surplus		0
32.	Surplus adjustments:		
	32.1. Paid in		0
	32.2. Transferred to capital (Stock Dividend)		0
	32.3. Transferred from capital		0
33.	Net remittances from or (to) Home Office		0
34.	Dividends to stockholders		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	0	(29,547,758)
37.	Change in surplus as regards policyholders for the year (Lines 22 through 36)	(220,739,341)	(7,244,568)
38.	Surplus as regards policyholders, December 31 current year (Line 21 plus Line 37) (Page 3, Line 35)	10,000,000	230,739,341
	DETAILS OF WRITE-INS		
0501.	Change in premium deficiency reserve	678,841	0
0502.			
0503.			
0598.	Summary of remaining write-ins for Line 5 from overflow page	0	0
0599.	Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above)	678,841	0
1401.	Finance and service charges not included in premiums - intercompany pool	267	26,273
1402.	Retroactive reinsurance gain (loss)	(40,922,235)	14,782,598
1403.	Income/(loss) related to reinsurance transaction	(229,183,168)	0
1498.	Summary of remaining write-ins for Line 14 from overflow page	488,907	825,952
1499.	Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above)	(269,616,229)	15,634,823
3601.	Change in minimum pension liability		(13,825,339)
3602.	Correction of errors		(15,722,419)
3603.			
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)	0	(29,547,758)

CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
Cash from Operations		
1. Premiums collected net of reinsurance	106,416,678	109,497,889
2. Net investment income	22,666,005	29,341,742
3. Miscellaneous income	(270,579,933)	20,677,217
4. Total (Lines 1 to 3)	(141,497,250)	159,516,848
5. Benefits and loss related payments	280,229,932	88,509,418
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	129,844,380	57,601,362
8. Dividends paid to policyholders	(9,196,359)	10,218,123
9. Federal and foreign income taxes paid (recovered) $ (813,837) net tax on capital gains (losses)	(11,612,880)	(13,134,760)
10. Total (Lines 5 through 9)	389,265,073	143,194,143
11. Net cash from operations (Line 4 minus Line 10)	(530,762,323)	16,322,705
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	499,210,776	202,412,015
12.2 Stocks	1,348,123	2,904,262
12.3 Mortgage loans	3,767,104	2,376,535
12.4 Real estate	0	0
12.5 Other invested assets	13,345,068	1,571,333
12.6 Net gains or (losses) on cash and short-term investments	0	(741)
12.7 Miscellaneous proceeds	0	19,825
12.8 Total investment proceeds (Lines 12.1 to 12.7)	517,671,071	209,283,229
13. Cost of investments acquired (long-term only):		
13.1 Bonds	68,781,875	131,734,813
13.2 Stocks	175,313	272,911
13.3 Mortgage loans	0	0
13.4 Real estate	0	0
13.5 Other invested assets	499,786	461,303
13.6 Miscellaneous applications	7,370,261	2,862,733
13.7 Total investments acquired (Lines 13.1 to 13.6)	76,827,235	135,331,760
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)	440,843,836	73,951,469
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	0	0
16.2 Capital and paid in surplus, less treasury stock	0	0
16.3 Borrowed funds received	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities		0
16.5 Dividends to stockholders	0	0
16.6 Other cash provided (applied)	75,919,983	(94,740,760)
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	75,919,983	(94,740,760)
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
18. Net change in cash and short-term investments (Line 11 plus Line 15 plus Line 17)	(13,998,504)	(4,466,586)
19. Cash and short-term investments:		
19.1 Beginning of year	19,584,089	24,050,675
19.2 End of period (Line 18 plus Line 19.1)	5,585,585	19,584,089

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	(270,134)	179,314	0	(90,820)
2.	Allied lines	346,683	77,139	0	423,822
3.	Farmowners multiple peril	0	0	0	0
4.	Homeowners multiple peril	(26,774)	2,193,750	0	2,166,976
5.	Commercial multiple peril	1,739,012	2,647,560	0	4,386,572
6.	Mortgage guaranty	0	0	0	0
8.	Ocean marine	55,256	137,477	0	192,733
9.	Inland marine	1,999,824	1,291,062	0	3,290,886
10.	Financial guaranty	0	0	0	0
11.1	Medical malpractice - occurrence	19,058	(2,843)	0	16,215
11.2	Medical malpractice - claims-made	191,692	84,722	0	276,414
12.	Earthquake	54,174	79,537	0	133,711
13.	Group accident and health	773,754	0	0	773,754
14.	Credit accident and health (group and individual)	0	0	0	0
15.	Other accident and health	4,062	139,010	0	143,072
16.	Workers' compensation	14,185,346	4,134,826	0	18,320,172
17.1	Other liability - occurrence	(918,986)	4,013,404	0	3,094,418
17.2	Other liability - claims-made	(638,555)	3,114,461	0	2,475,906
18.1	Products liability - occurrence	(1,298,496)	1,299,251	0	755
18.2	Products liability - claims-made	6,053	5,884	0	11,937
19.1,19.2	Private passenger auto liability	590,909	1,908,122	0	2,499,031
19.3,19.4	Commercial auto liability	1,748,326	2,461,064	0	4,209,390
21.	Auto physical damage	728,047	1,702,716	0	2,430,763
22.	Aircraft (all perils)	(26,223)	0	0	(26,223)
23.	Fidelity	103,315	51,822	0	155,137
24.	Surety	133,745	1,969,007	0	2,102,752
26.	Burglary and theft	5,962	5,829	0	11,791
27.	Boiler and machinery	19,358	16,803	0	36,161
28.	Credit	(595)	30,676	0	30,081
29.	International	0	0	0	0
30.	Reinsurance - Nonproportional Assumed Property	33	2,468	0	2,501
31.	Reinsurance - Nonproportional Assumed Liability	63,198	199,652	0	262,850
32.	Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0
33.	Aggregate write-ins for other lines of business	(12,931,592)	0	0	(12,931,592)
34.	TOTALS	6,656,452	27,742,713	0	34,399,165
	DETAILS OF WRITE-INS				
3301.	Novations	(12,931,592)	0	0	(12,931,592)
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)	(12,931,592)	0	0	(12,931,592)

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	(22)	22			0
2.	Allied lines	1,072	(1,072)			0
3.	Farmowners multiple peril					0
4.	Homeowners multiple peril					0
5.	Commercial multiple peril	643,968	(643,968)			0
6.	Mortgage guaranty					0
8.	Ocean marine	3,055	(3,055)			0
9.	Inland marine	171,524	(171,524)			0
10.	Financial guaranty					0
11.1	Medical malpractice - occurrence	2,788	(2,788)			0
11.2	Medical malpractice - claims-made	8,382	(8,382)			0
12.	Earthquake	2,283	(2,283)			0
13.	Group accident and health					0
14.	Credit accident and health (group and individual)					0
15.	Other accident and health					0
16.	Workers' compensation	1,306,087	(1,479,782)		173,695	0
17.1	Other liability - occurrence	(1,611,042)	1,611,042			0
17.2	Other liability - claims-made	(968,218)	968,218			0
18.1	Products liability - occurrence	(16,791)	16,791			0
18.2	Products liability - claims-made					0
19.1,19.2	Private passenger auto liability	6,347	(6,347)			0
19.3,19.4	Commercial auto liability	226,895	(226,895)			0
21.	Auto physical damage	75,285	(75,285)			0
22.	Aircraft (all perils)					0
23.	Fidelity	(38,956)	38,956			0
24.	Surety	(1,921,798)	1,921,798			0
26.	Burglary and theft	372	(372)			0
27.	Boiler and machinery	708	(708)			0
28.	Credit	(11,672)	11,672			0
29.	International					0
30.	Reinsurance - Nonproportional Assumed Property					0
31.	Reinsurance - Nonproportional Assumed Liability	(138,991)	138,991			0
32.	Reinsurance - Nonproportional Assumed Financial Lines					0
33.	Aggregate write-ins for other lines of business	0	0	0	0	0
34.	TOTALS	(2,258,724)	2,085,029	0	173,695	0
35.	Accrued retrospective premiums based on experience					
36.	Earned but unbilled premiums					
37.	Balance (Sum of Line 34 through 36)					0
	DETAILS OF WRITE-INS					
3301.						
3302.						
3303.						
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0
3399.	Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0

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

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

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B - PREMIUMS WRITTEN

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

	Line of Business	1 Direct Business (a)	Reinsurance Assumed 2 From Affiliates	Reinsurance Assumed 3 From Non-Affiliates	Reinsurance Ceded 4 To Affiliates	Reinsurance Ceded 5 To Non-Affiliates	6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
1.	Fire	1,823,793	(270,134)		1,823,793		(270,134)
2.	Allied lines	808,727	346,683		808,727		346,683
3.	Farmowners multiple peril						0
4.	Homeowners multiple peril	56,186,588	(26,774)		56,186,588		(26,774)
5.	Commercial multiple peril	9,341,866	1,739,012		9,341,866		1,739,012
6.	Mortgage guaranty						0
8.	Ocean marine	722,927	55,256		722,927		55,256
9.	Inland marine	3,059,544	1,999,824		3,059,544		1,999,824
10.	Financial guaranty						0
11.1	Medical malpractice - occurrence	4,755	19,058		4,755		19,058
11.2	Medical malpractice - claims-made		191,692				191,692
12.	Earthquake	2,495,238	54,174		2,495,238		54,174
13.	Group accident and health		773,754				773,754
14.	Credit accident and health (group and individual)						0
15.	Other accident and health		4,062				4,062
16.	Workers' compensation	31,330,124	10,942,898		28,087,676		14,185,346
17.1	Other liability - occurrence	2,704,440	(918,986)		2,704,440		(918,986)
17.2	Other liability - claims-made	758,896	(638,555)		758,896		(638,555)
18.1	Products liability - occurrence	(2,065,405)	(1,298,496)		(2,065,405)		(1,298,496)
18.2	Products liability - claims-made		6,053				6,053
19.1,19.2	Private passenger auto liability	86,682,900	590,909		86,682,900		590,909
19.3,19.4	Commercial auto liability	531,811	1,748,326		531,811		1,748,326
21.	Auto physical damage	57,544,171	728,047		57,544,171		728,047
22.	Aircraft (all perils)		(26,223)				(26,223)
23.	Fidelity	5,363	103,315		5,363		103,315
24.	Surety	9,099,223	133,745		9,099,223		133,745
26.	Burglary and theft	157	5,962		157		5,962
27.	Boiler and machinery	253,970	19,358		253,970		19,358
28.	Credit		(595)				(595)
29.	International						0
30.	Reinsurance - Nonproportional Assumed Property	XXX	33				33
31.	Reinsurance - Nonproportional Assumed Liability	XXX	63,198				63,198
32.	Reinsurance - Nonproportional Assumed Financial Lines	XXX					0
33.	Aggregate write-ins for other lines of business	0	(12,931,592)	0	0	0	(12,931,592)
34.	TOTALS	261,289,088	3,414,004	0	258,046,640	0	6,656,452
	DETAILS OF WRITE-INS						
3301.	Novations		(12,931,592)				(12,931,592)
3302.							
3303.							
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0
3399.	Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	(12,931,592)	0	0	0	(12,931,592)

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

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

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - LOSSES PAID AND INCURRED

		Losses Paid Less Salvage				5	6	7	8
	Line of Business	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)	Net Losses Unpaid Current Year (Part 2A, Col. 8)	Net Losses Unpaid Previous Year	Losses Incurred Current Year (Cols. 4 + 5 - 6)	Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
1.	Fire	1,430,715	484,382	1,430,715	484,382	0	286,931	197,451	(217.4)
2.	Allied lines	672,611	235,508	672,611	235,508	0	220,197	15,311	3.6
3.	Farmowners multiple peril		333		333	0	0	333	0.0
4.	Homeowners multiple peril	50,553,021	3,440,769	50,553,021	3,440,769	0	1,910,019	1,530,750	70.6
5.	Commercial multiple peril	48,893,215	19,116,066	48,893,215	19,116,066	0	19,510,840	(394,774)	(9.0)
6.	Mortgage guaranty				0	0	0	0	0.0
8.	Ocean marine	166,109	(685,437)	166,109	(685,437)	0	(156,179)	(529,258)	(274.6)
9.	Inland marine	987,428	1,956,447	987,428	1,956,447	0	260,172	1,696,275	51.5
10.	Financial guaranty				0	0	0	0	0.0
11.1	Medical malpractice - occurrence		29,006		29,006	0	(33,404)	62,410	384.9
11.2	Medical malpractice - claims-made		241,606		241,606	0	181,086	60,520	21.9
12.	Earthquake	380,349	(148,310)	380,349	(148,310)	0	(55,161)	(93,149)	(69.7)
13.	Group accident and health		2,677,034		2,677,034	0	2,084,315	592,719	76.6
14.	Credit accident and health (group and individual)				0	0	0	0	0.0
15.	Other accident and health		161,777		161,777	0	58,625	103,152	72.1
16.	Workers' compensation	118,841,568	147,053,495	126,070,498	139,824,565	0	135,530,322	4,294,243	23.4
17.1	Other liability - occurrence	13,718,966	60,145,197	13,718,966	60,145,197	0	38,734,125	21,411,072	691.9
17.2	Other liability - claims-made	99,646	8,963,495	99,646	8,963,495	0	11,795,512	(2,832,017)	(114.4)
18.1	Products liability - occurrence	2,237,495	(11,628,238)	2,237,495	(11,628,238)	0	32,431,813	(44,060,051)	(5,835,768.3)
18.2	Products liability - claims-made		822,707		822,707	0	60,131	762,576	6,388.3
19.1,19.2	Private passenger auto liability	103,400,268	16,773,631	103,400,268	16,773,631	0	15,486,966	1,286,665	51.5
19.3,19.4	Commercial auto liability	29,127,328	15,903,884	29,127,328	15,903,884	0	15,080,637	823,247	19.6
21.	Auto physical damage	50,568,254	(883,825)	50,568,254	(883,825)	0	(1,324,233)	440,408	18.1
22.	Aircraft (all perils)		3,438,221		3,438,221	0	110,138	3,328,083	(12,691.5)
23.	Fidelity	20,618	23,513	20,618	23,513	0	73,190	(49,677)	(32.0)
24.	Surety	34,097,574	7,625,154	34,097,574	7,625,154	0	4,113,728	3,511,426	167.0
26.	Burglary and theft		(12,473)		(12,473)	0	(12,712)	239	2.0
27.	Boiler and machinery	865,760	(13,614)	865,760	(13,614)	0	(54,900)	41,286	114.2
28.	Credit		(75,797)		(75,797)	0	(235,452)	159,655	530.8
29.	International				0	0	0	0	0.0
30.	Reinsurance - Nonproportional Assumed Property	XXX	74,001		74,001	0	473,763	(399,762)	(15,984.1)
31.	Reinsurance - Nonproportional Assumed Liability	XXX	11,740,330		11,740,330	0	5,787,389	5,952,941	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	456,060,925	287,458,862	463,289,855	280,229,932	0	282,317,858	(2,087,926)	(6.1)
	DETAILS OF WRITE-INS								
3301.									
3302.									
3303.									
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0	0	0.0
3399.	Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0	0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

		Reported Losses				Incurred But Not Reported			8	9
	Line of Business	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded	Net Losses Unpaid (Cols. 4 +5 + 6 - 7)	Unpaid Loss Adjustment Expenses
1.	Fire	579,821	46,590	626,411	0	647,677	203,147	850,824	0	
2.	Allied lines	28,344	29,683	58,027	0	189,619	144,290	333,909	0	
3.	Farmowners multiple peril				0		333	333	0	
4.	Homeowners multiple peril	15,176,051	1,043,507	16,219,558	0	13,308,061	191,087	13,499,148	0	
5.	Commercial multiple peril	57,833,930	13,639,447	71,473,377	0	11,943,937	1,647,609	13,591,546	0	
6.	Mortgage guaranty				0				0	
8.	Ocean marine	5,406	79,991	85,397	0	137,307	(831,999)	(694,692)	0	
9.	Inland marine	54,458	300,309	354,767	0	1,762,809	1,484,220	3,247,029	0	
10.	Financial guaranty				0				0	
11.1	Medical malpractice - occurrence		579	579	0	2,585	22,371	24,956	0	
11.2	Medical malpractice - claims-made		175,343	175,343	0		190,813	190,813	0	
12.	Earthquake	27,768	(1,705)	26,063	0	(109,990)	(140,785)	(250,775)	0	
13.	Group accident and health		1,865,004	1,865,004	0		1,313,930	1,313,930	(a) 0	
14.	Credit accident and health (group and individual)				0				0	
15.	Other accident and health		12,696	12,696	0		122,796	122,796	(a) 0	
16.	Workers' compensation	222,582,016	110,891,822	333,473,838	0	86,627,051	16,242,881	102,869,932	0	
17.1	Other liability - occurrence	25,464,552	34,159,954	59,624,506	0	54,731,108	21,445,838	76,176,946	0	
17.2	Other liability - claims-made	25,060	5,207,207	5,232,267	0	136,414	6,104,709	6,241,123	0	
18.1	Products liability - occurrence	9,044,300	(3,961,167)	5,083,133	0	(1,622,409)	(4,503,395)	(6,125,804)	0	
18.2	Products liability - claims-made		(472)	(472)	0		885,934	885,934	0	
19.1,19.2	Private passenger auto liability	79,983,221	7,944,983	87,928,204	0	26,685,958	913,706	27,599,664	0	
19.3,19.4	Commercial auto liability	38,211,266	7,872,775	46,084,041	0	9,840,407	5,943,389	15,783,796	0	
21.	Auto physical damage	2,144,061	35,988	2,180,049	0	(1,615,966)	(298,048)	(1,914,014)	0	
22.	Aircraft (all perils)		551,732	551,732	0		279,260	279,260	0	
23.	Fidelity	60	64,772	64,832	0	10,852	39,163	50,015	0	
24.	Surety	18,189,079	5,230,302	23,419,381	0	(7,412,759)	104,718	(7,308,041)	0	
26.	Burglary and theft		2,468	2,468	0	(20)	759	739	0	
27.	Boiler and machinery	134,793	20,210	155,003	0	11,585	82,711	94,296	0	
28.	Credit		10,474	10,474	0		(97,085)	(97,085)	0	
29.	International				0				0	
30.	Reinsurance - Nonproportional Assumed Property	XXX	68,466	68,466	0	XXX	(2,899)	(2,899)	0	
31.	Reinsurance - Nonproportional Assumed Liability	XXX	3,226,152	3,226,152	0	XXX	6,842,946	6,842,946	0	
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	469,484,186	188,517,110	658,001,296	0	195,274,226	58,332,399	253,606,625	0	0
	DETAILS OF WRITE-INS									
3301.										
3302.										
3303.										
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0	0	0	0
3399.	Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0	0	0	0

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

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	59,943,275			59,943,275
1.2 Reinsurance assumed	50,539,067			50,539,067
1.3 Reinsurance ceded	116,973,593			116,973,593
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	(6,491,251)	0	0	(6,491,251)
2. Commission and brokerage:				
2.1 Direct excluding contingent		40,334,741		40,334,741
2.2 Reinsurance assumed excluding contingent		(3,502,495)		(3,502,495)
2.3 Reinsurance ceded excluding contingent		40,334,741		40,334,741
2.4 Contingent-direct		765,062		765,062
2.5 Contingent-reinsurance assumed		(1,007,219)		(1,007,219)
2.6 Contingent-reinsurance ceded		765,062		765,062
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	(4,509,714)	0	(4,509,714)
3. Allowances to managers and agents		2,781		2,781
4. Advertising		139,792		139,792
5. Boards, bureaus and associations	5,461	462,856		468,317
6. Surveys and underwriting reports	420	635,532		635,952
7. Audit of assureds' records	0	30,589		30,589
8. Salary and related items:				
8.1 Salaries	2,618,537	9,492,939	120,597	12,232,073
8.2 Payroll taxes	215,481	457,823	9,714	683,018
9. Employee relations and welfare	320,072	1,188,169	15,401	1,523,642
10. Insurance	207,081	1,810,326		2,017,407
11. Directors' fees		83,425		83,425
12. Travel and travel items	96,190	460,339	948	557,477
13. Rent and rent items	378,038	1,080,332		1,458,370
14. Equipment	29,403	558,949	3,317	591,669
15. Cost or depreciation of EDP equipment and software	420	1,163,362	0	1,163,782
16. Printing and stationery	43,684	158,508	711	202,903
17. Postage, telephone and telegraph, exchange and express	117,612	517,236	8,530	643,378
18. Legal and auditing	3,780	881,747	775,729	1,661,256
19. Totals (Lines 3 to 18)	4,036,179	19,124,705	934,947	24,095,831
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of $ 174,259		3,897,216		3,897,216
20.2 Insurance department licenses and fees		239,898		239,898
20.3 Gross guaranty association assessments		174,259		174,259
20.4 All other (excluding federal and foreign income and real estate)		2,050,272		2,050,272
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)	0	6,361,645	0	6,361,645
21. Real estate expenses				0
22. Real estate taxes				0
23. Reimbursements by uninsured accident and health plans	0	0	0	0
24. Aggregate write-ins for miscellaneous expenses	164,236	6,729,927	1,608,894	8,503,057
25. Total expenses incurred	(2,290,836)	27,706,563	2,543,841	(a) 27,959,568
26. Less unpaid expenses - current year	0		54,480	54,480
27. Add unpaid expenses - prior year	78,352,329	25,508,075	166,494	104,026,898
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)	76,061,493	53,214,638	2,655,855	131,931,986
DETAILS OF WRITE-INS				
2401. All other	164,236	6,729,927	1,608,894	8,503,057
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)	164,236	6,729,927	1,608,894	8,503,057

(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) 3,567,956	3,177,759
1.1	Bonds exempt from U.S. tax	(a)	
1.2	Other bonds (unaffiliated)	(a) 18,973,781	15,400,383
1.3	Bonds of affiliates	(a)	
2.1	Preferred stocks (unaffiliated)	(b)	
2.11	Preferred stocks of affiliates	(b)	
2.2	Common stocks (unaffiliated)	3,069	3,069
2.21	Common stocks of affiliates		
3.	Mortgage loans	(c) 162,501	155,479
4.	Real estate	(d)	
5.	Contract loans		
6.	Cash/short-term investments	(e) 851,255	851,255
7.	Derivative instruments	(f)	
8.	Other invested assets	706,989	706,989
9.	Aggregate write-ins for investment income	240,856	240,856
10.	Total gross investment income	24,506,407	20,535,790
11.	Investment expenses		(g) 2,543,841
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g)
13.	Interest expense		(h)
14.	Depreciation on real estate and other invested assets		(i)
15.	Aggregate write-ins for deductions from investment income		0
16.	Total (Lines 11 through 15)		2,543,841
17.	Net Investment Income - (Line 10 minus Line 16)		17,991,949
	DETAILS OF WRITE-INS		
0901.	Income from securities lending	51,905	51,905
0902.	Income from other sources	188,951	188,951
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)	240,856	240,856
1501.			
1502.			
1503.			
1598.	Summary of remaining write-ins for Line 15 from overflow page		0
1599.	Total (Lines 1501 through 1503 plus 1598) (Line 15, above)		0

(a) Includes $ 1,223,370 accrual of discount less $ 2,038,822 amortization of premium and less $ 48,269 paid for accrued interest on purchases.
(b) Includes $ accrual of discount less $ amortization of premium and less $ paid for accrued dividends on purchases.
(c) Includes $ 0 accrual of discount less $ 0 amortization of premium and less $ 0 paid for accrued interest on purchases.
(d) Includes $ for company's occupancy of its own buildings; and excludes $ interest on encumbrances.
(e) Includes $ 150 accrual of discount less $ 0 amortization of premium and less $ 0 paid for accrued interest on purchases.
(f) Includes $ accrual of discount less $ 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 $ depreciation on real estate and $ depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Increases (Decreases) by Adjustment	4 Net Gain (Loss) from Change in Difference Between Basis Book/ Adjusted Carrying and Admitted Values	5 Total
1.	U.S. Government bonds	1,951,276				1,951,276
1.1	Bonds exempt from U.S. tax					0
1.2	Other bonds (unaffiliated)	15,526,586	(1,978,913)			13,547,673
1.3	Bonds of affiliates					0
2.1	Preferred stocks (unaffiliated)					0
2.11	Preferred stocks of affiliates					0
2.2	Common stocks (unaffiliated)	1,168,023		(412,929)		755,094
2.21	Common stocks of affiliates			(27,421)		(27,421)
3.	Mortgage loans					0
4.	Real estate					0
5.	Contract loans					0
6.	Cash/Short-term investments					0
7.	Derivative instruments					0
8.	Other invested assets	65,990	(1,720,622)	(470,395)	53,761	(2,071,266)
9.	Aggregate write-ins for capital gains (losses)	(7,370,261)	0	0	0	(7,370,261)
10.	Total capital gains (losses)	11,341,614	(3,699,535)	(910,745)	53,761	6,785,095
	DETAILS OF WRITE-INS					
0901.	Loss on sale of fixed assets	(7,370,261)				(7,370,261)
0902.						
0903.						
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0	0
0999.	Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	(7,370,261)	0	0	0	(7,370,261)

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	104,346,251	28,837,933	(75,508,318)
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	0	2,084,484	2,084,484
5. Total (Line 1 plus Lines 3 and 4)	104,346,251	30,922,417	(73,423,834)
DETAILS OF WRITE-INS			
0401. Other invested assets		53,761	53,761
0402. Other admitted assets		154,479	154,479
0403. Furniture, equipment and supplies		1,876,244	1,876,244
0498. Summary of remaining write-ins for Line 4 from overflow page	0	0	0
0499. Totals (Lines 0401 thru 0403 plus 0498) (Line 4 above)	0	2,084,484	2,084,484

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

The accompanying financial statements of American Manufacturers Mutual Insurance 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, with respect to 2002, in conformity with accounting practices prescribed or permitted by the State of Illinois Department of Insurance (the Department of Insurance). The Company is a mutual insurance company under common management with Lumbermens Mutual Casualty Company (LMC) and its subsidiaries.

Permitted Practices – 2002

Discounting of Reserves

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 Manual does not allow medical loss reserves to be included in tabular reserves and therefore such reserves cannot be discounted.

Prior to the adoption of the Manual, the Company discounted medical loss reserves for workers' compensation pension cases and lifetime medical no-fault auto claims (see Note 32). Accordingly, in 2002 the Department of Insurance permitted the Company to continue to discount such reserves with accident year dates prior to December 31, 2001. If the Company's medical loss reserves had not been discounted, the Company's pre-tax net income would have been increased by $1,916,033 at December 31, 2002, and the Company's pre-tax surplus would have been reduced by $19,705,236 at December 31, 2002.

As further discussed below in Note 1C and Note 26, the Company's participation in the Kemper Insurance Companies Quota Share Pooling Agreement has been changed from 8% to 0% effective December 31, 2003. Accordingly, the Company no longer retains any net discounted loss or LAE reserves and now reinsures 100% of its premium, losses, and underwriting expenses with LMC.

Dividends

Statutory accounting rules promulgated by the Manual require the Company to only accrue for policyholder dividends when they are declared by the Company's Board of Directors (the Board), rather than based upon estimated ultimate dividend payments. 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 just dividends declared by the Board. 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 $11,568,485 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.

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

NOTES TO FINANCIAL STATEMENTS

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

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

Other invested assets include joint venture partnerships. 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.

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. As of December 31, 2003, the Company did not have an ending premium deficiency reserve.

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

LMC 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 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.

NOTES TO FINANCIAL STATEMENTS

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.

2002 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 $11,568,485 as of December 31, 2002.

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 allowed the Company to determine the timing of cessions into those treaties. As a result of these provisions, only the original calendar cessions which equated 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 8% share of this accounting change was $22,720,000.

During 2002, the Company also completed a project to reconcile 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 is 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 LMC and AMICO		90,576,884	–	90,576,884
Amount retained by the Company	$	(15,722,419)	–	(15,722,419)

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

None.

4. DISCONTINUED OPERATIONS

None.

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, the Company does not have

NOTES TO FINANCIAL STATEMENTS

any investments in mortgages. There were no impaired mortgage loans or 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.

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

At December 31, 2003, the Company has no investments in joint ventures, partnerships, or limited liability companies. During 2003, the Company recorded impairment writedowns of $1,734,298 related to its investments in joint venture partnerships.

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 at December 31, 2003.

8. DERIVATIVE INSTRUMENTS

None.

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	$	104,351,502		25,175,969
Total of deferred tax liabilities		(5,251)		(932,242)
Net deferred tax asset		104,346,251		24,243,727
Deferred tax asset nonadmitted		(104,346,251)		(18,489,993)
Net admitted deferred tax asset	$	0		5,753,734
Increase in nonadmitted asset	$	(85,856,258)		

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	$	(9,544,544)		(11,156,272)
Foreign		10,161		0
Federal and foreign income taxes incurred	$	(9,534,383)		(11,156,272)

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	$	0		10,118,844
Accrued liabilities		0		11,410,867
Net operating loss carryforward		24,137,393		0
Reinsurance		80,214,109		0
Receivables		0		2,301,668
Other		0		1,344,590
Total deferred tax assets		104,351,502		25,175,969
Nonadmitted deferred tax assets		(104,346,251)		(18,489,993)
Admitted deferred tax assets		5,251		6,685,976
Deferred tax liabilities:				
Salvage and subrogation		0		(599,994)

NOTES TO FINANCIAL STATEMENTS

Other		(5,251)		(332,248)
Total deferred tax liabilities		(5,251)		(932,242)
Net admitted deferred tax asset	$	0		5,753,734

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

		December 31, 2003		December 31, 2002		Change
Total deferred tax assets	$	104,351,502		25,175,969		79,175,533
Total deferred tax liabilities		(5,251)		(932,242)		926,991
Net deferred tax asset	$	104,346,251		24,243,727		80,102,524
Tax effect of unrealized gains						0
Changes in net deferred income tax					$	80,102,524

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	$	(82,614,584)
Prior period adjustment		(9,544,544)
Accrued liabilities		510,177
Receivables		2,301,668
Other		(289,624)
Total	$	(89,636,907)
Federal and foreign income taxes incurred	$	(9,534,383)
Change in net deferred income taxes		(80,102,524)
Total statutory income taxes	$	(89,636,907)

At December 31, 2003, the Company had $68,963,981 of operating loss carry forward originating in the current year which expires, if unused, in year 2023. There are no income taxes incurred in the current year and prior year that will be available for recoupment in the event of future net losses.

The Company's Federal income tax return is not consolidated with any other entity's tax return.

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES

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."

Significant 2003 Transactions

Commercial Run-Off

LMC is currently developing a commercial run-off plan for itself and its affiliates, including the Company, under the direction of new management headed by Michael A. Coutu, founder, chairman and chief executive officer of Kenning Financial Advisors, LLC ("Kenning"). LMC, 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 LMC in November. As an independent contractor subject to the direction of the board of directors as provided in the Engagement Agreement, Kenning acts as the Company's, LMC'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, LMC and its affiliates.

Renewal Rights Transactions

In 2003, the Company entered into several renewal rights transactions allowing the Company and its affiliates to receive future commissions from other insurance companies that renew any of the in-force 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.

NOTES TO FINANCIAL STATEMENTS

The Company 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 $3,856,162.

Reinsurance Transaction between the Company and LMC

Effective December 31, 2003, the Company and LMC entered into a reinsurance transaction, the results of which included 1) an amendment to the Pooling Agreement that removes the Company from the Pool (see Note 1) and cedes all net liabilities of the Company at December 31, 2003 to LMC and 2) the issuance by LMC of a new insurance policy to each and every policyholder of the Company other than those policyholders already fully reinsured by Unitrin. In exchange for the issuance of these new insurance policies, the Company incurred an approximate charge of $229.2 million, and LMC recorded income of the same amount as of 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 LMC at December 31, 2003 would have been negative. In turn, the Company's solvency would also be at risk given the Company's significant reliance on its substantial reinsurance recoverables from LMC.

Historically, the Company and other Kemper Insurance Companies have ceded their directly written insurance business to LMC as their reinsurer, and LMC in turn has ceded to the Company 8% of that pooled business. As part of the reinsurance transaction described herein, the 8% cession from LMC to the Company was eliminated, with LMC receiving as payment from the Company assets equal to the Company's loss and loss expense reserves/liabilities (approximately $370 million) assumed by LMC. The Company then also paid to LMC an amount equal to the remainder of the Company'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 the Company 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 LMC at the earliest practicable date.)

LMC assumed most of the Company's liabilities, agreed to perform for the Company all insurance policy-related obligations including handling and paying claims, and issued to each holder of a policy ever issued by the Company, 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 the Company. The additional LMC policy assures the affected Company policyholders that their claims will be treated equally with the claims of other LMC policyholders not only in the event of a managed run-off of LMC and the Company (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 the Company policies were not novated, the affected policyholders now hold separate policies issued by both the Company and LMC. The Company remains liable for policy liabilities in the event LMC does not comply with all the terms of the affected policies. The Company has $1.3 billion in reinsurance due from LMC.

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 LMC following receipt of fairness opinions by their respective independently engaged financial advisors.

Guarantees

The Company has no guarantees of undertakings for the benefit of an affiliate that would result in a material contingent exposure.

NOTES TO FINANCIAL STATEMENTS

Significant 2002 Transactions

Berkshire Hathaway Insurance Group

Effective December 22, 2002 and amended January 13, 2003, LMC entered into a letter of intent with National Indemnity Company (National Indemnity), a member of the Berkshire Hathaway Insurance Group (Berkshire Hathaway), which provided LMC, the Company and certain other affiliated companies immediate access to cut-through agreements issued by National Indemnity. A cut-through agreement allows an insured to directly submit claims to National Indemnity in the event the 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 position. 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. The Company incurred cut-through agreement fees of $429,147 and $615,875 as of December 31, 2003 and 2002, respectively.

The Pool members, including the Company, also entered into various other transactions with members of Berkshire Hathaway that impacted the Company's 2002 results and year-end 2002 surplus. Pursuant to a retroactive adverse loss development reinsurance agreement effective for policies with accident years 2001 and earlier, the Company paid $32,592,000 to National Fire during 2002. Under the terms of the Pooling Agreement, the Company recorded a retroactive reinsurance gain of $9,600,000 and retroactive reinsurance recoverables of $42,192,000 as of December 31, 2002 related to this contract.

In connection with Berkshire Hathaway's purchase at June 28, 2002 of an indirect 15% interest in an LMC subsidiary, Kemper Commercial Insurance Company, the Pool members quota share reinsured (ceded) 80% of certain lines of business to Kemper Commercial and Berkshire Hathaway. In 2003, these and other reinsurance agreements with Berkshire Hathaway were commuted or terminated, which ultimately had no impact on the Company's surplus as the Company's participation in the Pool was changed from 8% to 0% effective December 31, 2003 (see Note 1C and Note 26).

Unitrin, Inc.

Effective June 28, 2002, the Pool members sold substantially all the renewal rights for their U.S. produced personal lines business to Trinity Universal Insurance Company, 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 has been terminated prior to April 19, 2002. This transaction with Unitrin included the transfer of approximately 1,100 LMC employees, and the sale of equipment and computer systems which supported the personal lines operations. As a result of the transaction, the Company recognized a realized loss of $1,839,516 primarily related to the sale of equipment and computer systems in 2002.

In connection with the sale, the Pool members and Unitrin also entered into administrative service agreements whereby Unitrin will continue to monitor and service the run-off of retained personal lines policies, and the Company and certain affiliated companies have 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 other affiliated companies.

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 utilizes the employees of LMC. LMC has a non-contributory defined benefit pension plan which covers substantially all full-time employees as well as certain deferred compensation plans for its officers and employees. Effective January 15, 2004, LMC adopted an amendment to freeze the pension plan. During 2002 and 2003, LMC ceded 8% of such costs with the Company under the terms of the Pooling Agreement in effect at that time. As of December 31, 2002, the Company recorded $444,847 of pension expense and $2,257,776 of accrued benefit liabilities related to such plans. As of December 31, 2003, the Pooling Agreement was amended to eliminate LMC's 8% cession to the Company (see Note 1C and Note 26). As a result, pension costs of

NOTES TO FINANCIAL STATEMENTS

$398,550 were allocated to the Company during 2003 but no accrued benefit liabilities remain at December 31, 2003.

LMC 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 recorded the following minimum pension liabilities directly to surplus as of December 31, 2002 as follows:

		2002
ABO	$	664,163,443
Market value of plan assets		(438,387,709)
Minimum pension liability		225,775,734
Less amounts allocated to LMC and AMICO		(207,713,675)
		18,062,059
Less amounts accrued in previous years		(4,236,720)
Change in minimum pension liability charged directly to surplus	$	13,825,339

B. Deferred Compensation Plans

LMC has a profit sharing plan for its officers and employees. LMC ceded a portion of such costs to the Company under the terms of the Pooling Agreement in effect until December 31, 2003.

C. Postretirement Benefits

LMC provides non-pension retirement benefits consisting of certain health care benefits and life insurance for retired employees. LMC is self-insured and payments are made through a Welfare Benefit Trust. The cost of the health care benefit is borne jointly by LMC and its employees at varying percentages depending on the age and service of the plan participant. Effective January 1, 2004, LMC (i) changed its funding policy for post-retirement medical, shifting more of the annual costs to the retiree while reducing the amount LMC 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 LMC are eligible for medical benefits at retirement. During 2002 and 2003, LMC ceded 8% of these benefit costs with the Company under the terms of the Pooling Agreement. As of December 31, 2002, the Company recorded $1,264,952 of benefit expenses and $5,728,378 of accrued benefit liabilities related to such plans. During 2003, the Pooling Agreement was amended to eliminate LMC's 8% cession to the Company. As a result, retirement benefit costs of $834,999 were allocated to the Company in 2003 but no accrued retirement benefit liabilities remain at December 31, 2003.

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 of $104,346,251.

14. CONTINGENCIES

Other

Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation, income tax and other matters are not considered material in relation to established reserves, anticipated insurance and reinsurance recoverables and the financial position of the Company.

Ratings

The Company shares a group rating with LMC and its affiliates. Beginning on December 20, 2002, the group'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 rating to below A-; currently, A.M. Best assigns the group a D (poor) rating. In June and July 2003, respectively, Moody's Investor Service and Standard & Poors last downgraded the financial strength ratings to Caa3 (very poor) and CCC (very weak), respectively, when, at LMC's request, they ceased rating the Company, LMC, and its affiliates. The downgrades to below A- effectively ended the Company's, LMC's and its affiliates' ability to write most new commercial business or retain existing policyholders.

15. LEASES

None.

NOTES TO FINANCIAL STATEMENTS

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

None

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

None.

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

None.

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

None.

20. SEPTEMBER 11 EVENTS

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 LMC per Pooling Agreement		(42,919,109)
Net amount incurred by the Company	$	3,732,096

The incurred losses are primarily attributable to the commercial multiple peril and other liability lines of business. As of December 31, 2003, the Pool 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 Pool's unsecured recoverables from all reinsurers, excluding the Pool'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

Securities on Deposit

Assets with a statement value of $4,533,193 and $74,686,033 at December 31, 2003 and 2002, respectively, were on deposit with government authorities as required by law.

Reinsurance Accounted for as a Deposit

Effective December 31, 2003, the Company's intercompany Pooling Agreement was changed as discussed in Note 26. As a result of these changes, the Company no longer has a remaining deposit balance as of December 31, 2003.

22. EVENTS SUBSEQUENT

None.

NOTES TO FINANCIAL STATEMENTS

23. REINSURANCE

A. Unsecured Reinsurance Recoverables

The Company reinsures 100% of its premiums, losses, and underwriting expenses with LMC. All reinsurance recoverables from LMC are unsecured, and the Company remains primarily liable as the direct insurer on all risks reinsured if LMC is unable to pay such claims.

B. Unsecured Reinsurance Recoverables

The Company reinsures 100% of its premiums, losses, and underwriting expenses with LMC. All reinsurance recoverables from LMC are unsecured, and the Company remains primarily liable as the direct insurer on all risks reinsured if LMC is unable to pay such claims.

C. Unsecured Reinsurance Recoverables

The Company reinsures 100% of its premiums, losses, and underwriting expenses with LMC. All reinsurance recoverables from LMC are unsecured, and the Company remains primarily liable as the direct insurer on all risks reinsured if LMC is unable to pay such claims.

Since July 2003, the Company, LMC 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. As of December 31, 2003, LMC'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, LMC and its affiliates. The Department of Insurance is mandated to place a company at this level under its control, except where, as is the case with LMC, 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. The Department of Insurance could seek to place the Company and LMC in a formal proceeding (receivership, rehabilitation, or other) at any time based on their current financial condition.

D. Reinsurance Recoverable in Dispute

The Company has no reinsurance recoverable in dispute which exceeds 5% of surplus nor does the aggregate of all disputed items exceed 10% of surplus.

E. 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	$8,832,636	914,999	63,862,362	9,858,321	(55,029,726)	(8,943,322)
(ii) All other	0	0	0	0	0	0
(iii) Total	$8,832,636	914,999	63,862,362	9,858,321	(55,029,726)	(8,943,322)
(iv) Direct Unearned Premium Reserve: $55,029,726						

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	$26,320,544	24,335	26,320,544	24,335
(ii) Sliding scale adjustments	0	0	0	0
(iii) Other profit commission arrangements	0	0	0	0
(iv) Total	$26,320,544	24,335	26,320,544	24,335

F. Uncollectible Reinsurance
None.

G. Commutation of Ceded Reinsurance
None.

H. Retroactive Reinsurance
None.

I. Reinsurance Accounted For As a Deposit
None.

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 $0 and $12,801,698 at December 31, 2003 and 2002, respectively. See Note 1 for a full 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 $0 and $502,849 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 $330,809 in 2003 and $268,977 in 2002	$	360,670		329,395
Incurred related to:				
Current accident year		(4,379)		110,979
Prior accident years (excluding corrections of errors and cumulative effect of changes in accounting principle)		0		35,305
Total incurred		(4,379)		146,284
Correction of errors (see Note 2):				
Risk transfers		0		18,160
Retroactive reinsurance accounting		0		22,720
Cumulative effect of changes in accounting principle (see Note 2)		0		0
Total changes and corrections		0		40,880
Paid related to:				
Current accident year		3,773		(43,544)
Prior accident years		(360,064)		(112,345)
Total paid		(356,291)		(155,889)
Balance as of December 31, net of reinsurance recoverables of $964,177 in 2003 and $330,809 in 2002	$	0		360,670

NOTES TO FINANCIAL STATEMENTS

100% of the Company's liabilities for loss and LAE are ceded to its parent, LMC. In 2002, the Company participated in a pooling arrangement with LMC in which the Company received 8% of the pool. See Note 26 for further details.

26. INTERCOMPANY POOLING ARRANGEMENTS

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

27. STRUCTURED SETTLEMENTS

None.

28. HEALTH CARE RECEIVABLES

None.

29. PARTICIPATING POLICIES

None.

30. PREMIUM DEFICIENCY RESERVES

None.

31. HIGH DEDUCTIBLES

None.

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 Manual does not allow medical loss reserves to be included in tabular reserves and therefore such reserves cannot be discounted.

Prior to the adoption of the Manual, the Company discounted medical loss reserves for workers' compensation pension cases and lifetime medical no-fault auto claims (see Note 32). Accordingly, in 2002 the Department of Insurance permitted the Company to continue to discount such reserves with accident year dates prior to December 31, 2001. If the Company's medical loss reserves had not been discounted, the Company's pre-tax net income would have been increased by $1,916,033 at December 31, 2002, and the Company's pre-tax surplus would have been reduced by $19,705,236 at December 31, 2002.

As further discussed below in Note 1C and Note 26, the Company's participation in the Kemper Insurance Companies Quota Share Pooling Agreement has been changed from 8% to 0% effective December 31, 2003. Accordingly, the Company no longer retains any net discounted loss or LAE reserves and now reinsures 100% of its premium, losses, and underwriting expenses with LMC.

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

NOTES TO FINANCIAL STATEMENTS

Beginning reserves	$10,309	$11,607	$12,799	$82,214	$ 84,102
Codification adjustment at 1/1/01	0	0	16,059	0	0
Incurred losses and LAE	63	5,195	59,143	5,368	(18,993)
Calendar year payments for losses and LAE	1,235	(4,003)	(5,787)	(3,480)	(5,779)
Ending asbestos related loss reserves	$11,607	$12,799	$82,214	$84,102	$ 59,330

Net of Reinsurance (000 omitted)	1999	2000	2001	2002	2003
Beginning reserves	$7,332	$7,330	$8,078	$39,775	$ 40,524
Codification adjustment at 1/1/01	0	0	16,059	0	0
Incurred losses and LAE	(1,945)	4,483	20,687	3,580	(36,046)
Calendar year payments for losses and LAE	1,943	(3,735)	(5,049)	(2,831)	(4,478)
Ending asbestos related loss reserves	$7,330	$8,078	$39,775	$40,524	$ 0

The total asbestos related loss reserves at December 31, 2003 include IBNR reserves in the amount of $16,490,000 gross of reinsurance and $0 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 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	$11,525	$13,081	$ 8,049	$13,060	$14,207
Codification adjustment at 1/1/01	0	0	9,151	0	0
Incurred losses and LAE	1,141	(1,601)	1,540	883	(1,337)
Calendar year payments for losses and LAE	415	(3,431)	(5,680)	264	(231)
Ending environmental loss reserves	$13,081	$ 8,049	$13,060	$14,207	$12,639

Net of Reinsurance (000 omitted)	1999	2000	2001	2002	2003
Beginning reserves	$10,693	$11,924	$ 6,203	$ 7,189	$10,903
Codification adjustment at 1/1/01	0	0	9,151	0	0
Incurred losses and LAE	(277)	(2,296)	(3,973)	3,038	(11,211)
Calendar year payments for losses and LAE	1,508	(3,425)	(4,192)	676	308
Ending environmental loss reserves	$11,924	$ 6,203	$ 7,189	$10,903	$ 0

The total environmental loss reserves at December 31, 2003 include IBNR reserves in the amount of $8,238,000 gross of reinsurance and $0 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.

34. SUBSCRIBER SAVINGS ACCOUNT

None.

35. MULTIPLE PERIL CROP INSURANCE

None.

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. Treasury securities	3,841,294	38.734	3,841,294	38.734
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		0.000		0.000
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)	78,360	0.790	78,360	0.790
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	411,874	4.153	411,874	4.153
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		0.000		0.000
1.512 Issued by FNMA and FHLMC		0.000		0.000
1.513 Privately issued		0.000		0.000
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		0.000		0.000
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)		0.000		0.000
2.2 Unaffiliated foreign securities		0.000		0.000
2.3 Affiliated securities		0.000		0.000
3. Equity interests:				
3.1 Investments in mutual funds		0.000		0.000
3.2 Preferred stocks:				
3.21 Affiliated		0.000		0.000
3.22 Unaffiliated		0.000		0.000
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated		0.000		0.000
3.32 Unaffiliated		0.000		0.000
3.4 Other equity securities:				
3.41 Affiliated		0.000		0.000
3.42 Unaffiliated		0.000		0.000
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated		0.000		0.000
3.52 Unaffiliated		0.000		0.000
4. Mortgage loans:				
4.1 Construction and land development		0.000		0.000
4.2 Agricultural		0.000		0.000
4.3 Single family residential properties		0.000		0.000
4.4 Multifamily residential properties		0.000		0.000
4.5 Commercial loans		0.000		0.000
4.6 Mezzanine real estate loans		0.000		0.000
5. Real estate investments:				
5.1 Property occupied by the company		0.000	0	0.000
5.2 Property held for the production of income (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)		0.000	0	0.000
6. Policy loans		0.000		0.000
7. Receivables for securities		0.000	0	0.000
8. Cash and short-term investments	5,585,585	56.323	5,585,585	56.323
9. Other invested assets		0.000		0.000
10. Total invested assets	9,917,113	100.000	9,917,113	100.000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [X] No [ ]

1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent, or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [X] No [ ] NA [ ]

1.3 State Regulating? Illinois

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [X]

2.2 If yes, date of change:

If not previously filed, furnish herewith a certified copy of the instrument as amended.

3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2000

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

3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 11/18/2003

3.4 By what department or departments? Prior examination completed by: Delaware, Illinois, Mississippi and Nevada

4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity), receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11 sales of new business? Yes [ ] No [X]

4.12 renewals? Yes [ ] No [X]

4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21 sales of new business? Yes [ ] No [X]

4.22 renewals? Yes [ ] No [X]

5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [X]

5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

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

6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.) Yes [ ] No [X]

6.2 If yes, give full information

7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [X]

7.2 If yes,

7.21 State the percentage of foreign control;

7.22 State the nationality(s) of the foreign person(s) or entity(s) or if the entity is a mutual or reciprocal, the nationality of its manager or attorney in fact; and identify the type of entity(s) (e.g., individual, corporation 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 $ 0
- 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 Number of Shares Authorized	2 Number of Shares Outstanding	3 Par Value Per Share	4 Redemption Price if Callable	5 Is Dividend Rate Limited?	6 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 [X] No [ ]

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 [ ] No [X]

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

20.21	Loaned to others	$
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 Schedule of activity available on request.
20.32
20.33
20.34
20.35
20.36
20.37
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 [X] 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 [X]

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 [X]

24.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
9999999. TOTAL		0

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? $ 1,615,115

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? $ 339

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
Seyfarth Shaw	339

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 Current Year	2 Prior Year
2.1	Premium Numerator	$ 201	$ 200
2.2	Premium Denominator	$ 34,399,165	$ 151,273,733
2.3	Premium Ratio (2.1/2.2)	0.000	0.000
2.4	Reserve Numerator	$ 0	$ 879,290
2.5	Reserve Denominator	$ (173,695)	$ 388,412,900
2.6	Reserve Ratio (2.4/2.5)	0.000	0.002

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 is 100% reinsured by its parent which 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 is 100% reinsured by its parent which 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 [X] No [ ]

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

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 [X]

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

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

8.2 If yes, give full information

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

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

10.2 If yes, give full information

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. $ 0

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 [X] 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 %
- 11.42 To %

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 [X]

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

- 11.61 Letters of Credit $
- 11.62 Collateral and other funds $

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

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 [X]

12.3 If yes, what amount? $

13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): $ 0

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

13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of 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 [ ] No [X]

15.11 Name of real estate holding company

15.12 Number of parcels involved

15.13 Total book/adjusted carrying value $

15.2 If yes, provide explanation:

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

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

	1 Direct Losses Incurred	2 Direct Losses Unpaid	3 Direct Written Premium	4 Direct Premium Unearned	5 Direct Premium Earned
16.11 Home	$	$	$	$	$
16.12 Products	$	$	$	$	$
16.13 Automobile	$	$	$	$	$
16.14 Other*	$	$	$	$	$

* Disclose type of coverage:

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)	130,590,420	504,035,737	558,497,709	644,758,355	618,774,795
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	68,596,186	151,561,513	156,896,940	174,638,444	162,068,442
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	68,265,980	185,827,504	259,393,385	277,943,029	264,542,065
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	(2,812,725)	24,384,747	26,018,190	21,727,387	15,731,147
5. Non-proportional reinsurance lines (Lines 30, 31 & 32)	63,231	64,472	200,477	377,869	(93,564)
6. Total (Line 34)	264,703,092	865,873,973	1,001,006,701	1,119,445,084	1,061,022,885
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)	13,885,347	42,773,977	121,598,640	138,852,660	120,004,238
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	2,864,556	14,128,066	29,404,235	28,900,366	23,790,086
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	1,760,629	12,825,326	37,422,532	37,953,785	36,295,903
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	(11,917,311)	1,981,904	7,413,122	6,732,756	6,039,512
11. Non-proportional reinsurance lines (Lines 30, 31 & 32)	63,231	64,472	200,477	377,869	(93,564)
12. Total (Line 34)	6,656,452	71,773,745	196,039,006	212,817,436	186,036,175
Statement of Income (Page 4)					
13. Net underwriting gain (Loss) (Line 8)	10,392,523	(21,118,344)	(25,160,175)	(2,132,109)	2,293,769
14. Net investment gain (Loss) (Line 11)	25,634,028	19,349,352	29,778,050	49,115,130	56,418,245
15. Total other income (Line 15)	(270,579,933)	15,601,596	17,385,443	804,123	1,784,795
16. Dividends to policyholders (Line 17)	1,488,287	5,765,698	7,020,411	14,079,077	18,759,128
17. Federal and foreign income taxes incurred (Line 19)	(9,534,383)	(11,156,272)	(9,910,621)	11,236,184	14,608,187
18. Net income (Line 20)	(226,507,286)	19,223,178	24,893,528	22,471,883	27,129,494
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	10,054,480	631,770,615	737,271,703	764,857,903	813,230,024
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 12.1)	0	28,370,568	73,810,238	58,473,515	55,202,628
20.2 Deferred and not yet due (Line 12.2)	0	70,470,095	56,179,664	83,895,365	75,706,417
20.3 Accrued retrospective premiums (Line 12.3)	0	12,801,698	10,753,722	10,929,626	10,677,362
21. Total liabilities excluding protected cell business (Page 3, Line 24)	54,480	401,031,274	499,287,794	510,580,962	536,629,991
22. Losses (Page 3, Lines 1 and 2)	0	282,317,858	254,428,732	227,620,533	268,349,553
23. Loss adjustment expenses (Page 3, Line 3)	0	78,352,329	74,966,179	91,237,177	86,996,942
24. Unearned premiums (Page 3, Line 9)	0	27,742,713	100,522,301	100,317,709	92,942,043
25. Capital paid up (Page 3, Lines 28 & 29)	0	0	0	0	0
26. Surplus as regards policyholders (Page 3, Line 35)	10,000,000	230,739,341	237,983,909	254,276,941	276,600,033
Risk-Based Capital Analysis					
27. Total adjusted capital	10,000,000	211,035,341	216,362,909	241,868,941	265,898,033
28. Authorized control level risk-based capital	42,715,794	31,651,373	28,405,667	22,944,965	25,545,861
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)	43.7	91.7	91.0	79.3	78.4
30. Stocks (Lines 2.1 & 2.2)	0.0	0.1	0.6	0.5	15.3
31. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.0	0.8	1.1	1.2	1.4
32. Real estate (Lines 4.1, 4.2 & 4.3)	0.0	0.0	0.0	0.0	0.0
33. Cash and short-term investments (Line 5)	56.3	4.3	4.4	17.8	3.3
34. Contract loans (Line 6)	0.0	XXX	XXX	XXX	XXX
35. Other invested assets (Line 7)	0.0	3.1	2.8	1.2	1.6
36. Receivable for securities (Line 8)	0.0	0.0	0.0	0.0	0.1
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	0
40. Affiliated preferred stocks (Schedule D, Summary, Line 39, Col. 1)	0	0	0	0	0
41. Affiliated common stocks (Schedule D, Summary, Line 53, Col. 2)	0	27,421	123,179	0	0
42. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 11)	0	0	0	0	0
43. Affiliated mortgage loans on real estate		0	0	0	0
44. All other affiliated		0	0	0	0
45. Total of above Lines 39 to 44	0	27,421	123,179	0	0
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)	0.0	0.0	0.1	0.0	0.0

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)	(910,745)	561,653	(1,668,055)	(11,729,237)	(3,392,538)
48. Dividends to stockholders (Line 34)	0	0	0	0	0
49. Change in surplus as regards policyholders for the year (Line 37)	(220,739,341)	(7,244,568)	(16,293,032)	(22,323,092)	21,456,005
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)	505,730,054	385,110,614	401,808,226	424,335,895	352,014,050
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	55,671,086	80,355,549	95,052,017	107,151,006	90,154,830
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	125,774,443	144,183,484	194,836,324	186,004,875	189,087,957
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	44,529,873	12,617,931	7,847,063	5,817,432	3,214,302
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	11,814,331	555,962	663,943	1,631,010	2,123,334
55. Total (Line 34)	743,519,787	622,823,540	700,207,573	724,940,218	636,594,473
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)	231,075,853	90,258,417	96,848,660	97,855,988	76,714,555
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	1,631,729	10,563,596	15,992,983	21,887,807	13,895,458
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	25,296,338	22,160,789	28,939,433	29,497,165	30,332,633
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	10,411,681	4,087,018	3,664,423	2,153,352	1,079,979
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	11,814,331	555,962	663,943	1,631,010	2,123,334
61. Total (Line 34)	280,229,932	127,625,782	146,109,442	153,025,322	124,145,959
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)	(6.1)	76.9	70.7	54.7	49.4
64. Loss expenses incurred (Line 3)	(6.7)	19.8	13.3	18.9	22.8
65. Other underwriting expenses incurred (Line 4)	80.5	17.3	29.2	27.5	26.6
66. Net underwriting gain (loss) (Line 8)	30.2	(14.0)	(12.9)	(1.0)	1.2
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)	4,491.4	14.6	19.8	26.1	26.0
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	(12.7)	96.7	84.0	73.6	72.2
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)	66.6	31.1	82.4	83.7	67.3
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)	0	75,344	46,138	11,748	(8,521)
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)	0.0	31.7	18.1	4.2	(3.3)
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)	0	95,010	56,302	(12,056)	(37,706)
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)	0.0	37.4	20.4	(4.7)	(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	3,841,293	3,974,768	3,950,702	3,836,000
	2. Canada	0	0	0	0
	3. Other Countries	0	0	0	0
	4. Totals	3,841,293	3,974,768	3,950,702	3,836,000
States, Territories and Possessions (Direct and guaranteed)	5. United States	0	0	0	0
	6. Canada	78,360	84,586	79,130	75,000
	7. Other Countries	0	0	0	0
	8. Totals	78,360	84,586	79,130	75,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States	0	0	0	0
	10. Canada	0	0	0	0
	11. Other Countries	0	0	0	0
	12. Totals	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	411,874	457,284	412,892	400,000
	14. Canada	0	0	0	0
	15. Other Countries	0	0	0	0
	16. Totals	411,874	457,284	412,892	400,000
Public Utilities (unaffiliated)	17. United States	0	0	0	0
	18. Canada	0	0	0	0
	19. Other Countries	0	0	0	0
	20. Totals	0	0	0	0
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States	0	0	0	0
	22. Canada	0	0	0	0
	23. Other Countries	0	0	0	0
	24. Totals	0	0	0	0
Parent, Subsidiaries and Affiliates	25. Totals	0	0	0	0
	26. **Total Bonds**	4,331,528	4,516,637	4,442,724	4,311,000
PREFERRED STOCKS Public Utilities (unaffiliated)	27. United States	0	0	0	
	28. Canada	0	0	0	
	29. Other Countries	0	0	0	
	30. Totals	0	0	0	
Banks, Trust and Insurance Companies (unaffiliated)	31. United States	0	0	0	
	32. Canada	0	0	0	
	33. Other Countries	0	0	0	
	34. Totals	0	0	0	
Industrial and Miscellaneous (unaffiliated)	35. United States	0	0	0	
	36. Canada	0	0	0	
	37. Other Countries	0	0	0	
	38. Totals	0	0	0	
Parent, Subsidiaries and Affiliates	39. Totals	0	0	0	
	40. **Total Preferred Stocks**	0	0	0	
COMMON STOCKS Public Utilities (unaffiliated)	41. United States	0	0	0	
	42. Canada	0	0	0	
	43. Other Countries	0	0	0	
	44. Totals	0	0	0	
Banks, Trust and Insurance Companies (unaffiliated)	45. United States	0	0	0	
	46. Canada	0	0	0	
	47. Other Countries	0	0	0	
	48. Totals	0	0	0	
Industrial and Miscellaneous (unaffiliated)	49. United States	0	0	0	
	50. Canada	0	0	0	
	51. Other Countries	0	0	0	
	52. Totals	0	0	0	
Parent, Subsidiaries and Affiliates	53. Totals	0	0	0	
	54. **Total Common Stocks**	0	0	0	
	55. **Total Stocks**	0	0	0	
	56. **Total Bonds and Stocks**	4,331,528	4,516,637	4,442,724	

(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		420,522,069
2.	Cost of bonds and stocks acquired, Column 6, Part 3		68,957,188
3.	Increase (decrease) by adjustment:		
	3.1 Column 16, Part 1	(19,947)	
	3.2 Column 12, Part 2, Sec. 1	0	
	3.3 Column 10, Part 2, Sec. 2	0	
	3.4 Column 10, Part 4	(3,214,768)	(3,234,715)
4.	Total gain (loss), Col. 14, Part 4		18,645,885
5.	Deduct consideration for bonds and stocks disposed of Column 6, Part 4		500,558,899
6.	Foreign Exchange Adjustment:		
	6.1 Column 17, Part 1	0	
	6.2 Column 13, Part 2, Sec. 1	0	
	6.3 Column 11, Part 2, Sec. 2	0	
	6.4 Column 11, Part 4	0	0
7.	Book/adjusted carrying value at end of current period		4,331,528
8.	Total valuation allowance		0
9.	Subtotal (Lines 7 plus 8)		4,331,528
10.	Total nonadmitted amounts		0
11.	Statement value of bonds and stocks, current period		4,331,528

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

($000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								12
	1	2	3	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	Number of Claims Reported - Direct and Assumed
				4	5	6	7	8	9	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
	Direct and Assumed	Ceded	Net (Cols. 1 - 2)	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded			
1. Prior	XXX	XXX	XXX	8,674	8,674	2,221	2,221	152	152	0	0	XXX
2. 1994	684,390	684,390	0	412,939	412,939	31,112	31,112	34,557	34,557	0	0	XXX
3. 1995	702,525	702,525	0	377,261	377,261	28,928	28,928	28,295	28,295	0	0	XXX
4. 1996	769,869	769,869	0	449,955	449,955	31,887	31,887	36,212	36,212	0	0	XXX
5. 1997	829,851	829,851	0	487,922	487,922	41,580	41,580	41,198	41,198	0	0	XXX
6. 1998	867,271	867,271	0	542,306	542,306	44,745	44,745	48,983	48,983	0	0	XXX
7. 1999	879,766	879,766	0	537,216	537,216	38,840	38,840	47,273	47,273	0	0	XXX
8. 2000	889,756	889,756	0	521,892	521,892	38,402	38,402	67,584	67,584	0	0	XXX
9. 2001	888,243	888,243	0	434,155	434,155	26,421	26,421	63,792	63,792	0	0	XXX
10. 2002	818,231	818,231	0	304,061	304,061	15,138	15,138	35,714	35,714	0	0	XXX
11. 2003	507,658	507,658	0	136,881	136,881	3,022	3,022	9,862	9,862	0	0	XXX
12. Totals	XXX	XXX	XXX	4,213,262	4,213,262	302,296	302,296	413,622	413,622	0	0	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21	22	Salvage and Subrog-ation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstand-ing - Direct and Assumed
	13	14	15	16	17	18	19	20					
	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded			
1.	67,735	67,735	14,595	14,595	12,485	12,485	4,815	4,815	1,871	1,871	0	0	XXX
2.	7,205	7,205	1,994	1,994	727	727	653	653	469	469	0	0	XXX
3.	10,519	10,519	531	531	1,378	1,378	1,053	1,053	392	392	0	0	XXX
4.	13,136	13,136	866	866	1,209	1,209	2,378	2,378	774	774	0	0	XXX
5.	18,444	18,444	4,790	4,790	3,325	3,325	3,066	3,066	1,448	1,448	0	0	XXX
6.	34,482	34,482	8,694	8,694	4,494	4,494	8,045	8,045	2,464	2,464	0	0	XXX
7.	46,110	46,110	13,481	13,481	5,958	5,958	7,652	7,652	3,440	3,440	0	0	XXX
8.	67,209	67,209	24,486	24,486	7,664	7,664	11,866	11,866	4,751	4,751	0	0	XXX
9.	73,738	73,738	40,420	40,420	10,398	10,398	14,392	14,392	6,331	6,331	0	0	XXX
10.	81,328	81,328	87,242	87,242	7,208	7,208	24,989	24,989	9,395	9,395	0	0	XXX
11.	49,574	49,574	95,016	95,016	1,656	1,656	23,118	23,118	12,719	12,719	0	0	XXX
12. Totals	469,480	469,480	292,115	292,115	56,502	56,502	102,027	102,027	44,053	44,053	0	0	XXX

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34	Net Balance Sheet Reserves After Discount	
	26	27	28	29	30	31	32	33	Inter-Company Pooling Participation Percentage	35	36
	Direct and Assumed	Ceded	Net	Direct and Assumed	Ceded	Net	Loss	Loss Expense		Losses Unpaid	Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	0	0
2.	489,656	489,656	0	71.5	71.5	0.0	0	0		0	0
3.	448,356	448,356	0	63.8	63.8	0.0	0	0		0	0
4.	536,417	536,417	0	69.7	69.7	0.0	0	0		0	0
5.	601,773	601,773	0	72.5	72.5	0.0	0	0		0	0
6.	694,213	694,213	0	80.0	80.0	0.0	0	0		0	0
7.	699,970	699,970	0	79.6	79.6	0.0	0	0		0	0
8.	743,853	743,853	0	83.6	83.6	0.0	0	0		0	0
9.	669,647	669,647	0	75.4	75.4	0.0	0	0		0	0
10.	565,075	565,075	0	69.1	69.1	0.0	0	0		0	0
11.	331,848	331,848	0	65.4	65.4	0.0	0	0		0	0
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	0	0

Note: Parts 2 and 4 are gross of all discounting, including tabular discounting. Part 1 is gross of only nontabular discounting, which is reported in Columns 32 and 33 of Part 1. The tabular discount, if any, is reported in the Notes to Financial Statements which will reconcile Part 1 with Parts 2 and 4.

SCHEDULE P - PART 2 - SUMMARY

NONE

Years in Which Losses Were Incurred	INCURRED NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED) 1 1994	2 1995	3 1996	4 1997	5 1998	6 1999	7 2000	8 2001	9 2002	10 2003	DEVELOPMENT 11 One Year	12 Two Year
1. Prior	0	0	0	[illegible]	[illegible]	0	[illegible]	0	0	0	0	0
2. 1994	0	0	0	[illegible]	0	[illegible]	[illegible]	0	0	0	0	0
3. 1995	XXX	0	0	[illegible]	[illegible]	0	[illegible]	0	0	0	0	0
4. 1996	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1997	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1998	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
7. 1999	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
8. 2000	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
9. 2001	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	XXX
11. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX
										12. Totals	0	0

SCHEDULE P - PART 3 - SUMMARY

NONE

Years in Which Losses Were Incurred	CUMULATIVE PAID NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED) 1 1994	2 1995	3 1996	4 1997	5 1998	6 1999	7 [illegible]	8 2001	9 2002	10 2003	11 Number of Claims Closed With Loss Payment	12 Number of Claims Closed Without Loss Payment
1. Prior	000	0	0	[illegible]	0	[illegible]	[illegible]	0	0	0	XXX	XXX
2. 1994	0	0	0	[illegible]	[illegible]	0	[illegible]	0	0	0	XXX	XXX
3. 1995	XXX	0	0	0	0	0	0	0	0	0	XXX	XXX
4. 1996	XXX	XXX	0	0	0	0	0	0	0	0	XXX	XXX
5. 1997	XXX	XXX	XXX	0	0	0	0	0	0	0	XXX	XXX
6. 1998	XXX	XXX	XXX	XXX	0	0	0	0	0	0	XXX	XXX
7. 1999	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	XXX	XXX
8. 2000	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	XXX	XXX
9. 2001	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	XXX	XXX
10. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	XXX
11. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX

SCHEDULE P - PART 4 - SUMMARY

NONE

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 1994	2 1995	3 1996	4 1997	5 1998	6 1999	7 2000	8 2001	9 2002	10 2003
1. Prior	0	0	0	0	0	0	0	0	0	0
2. 1994	0	0	0	[illegible]	[illegible]	0	0	0	0	0
3. 1995	XXX	0	0	0	0	0	0	0	0	0
4. 1996	XXX	XXX	0	0	0	0	0	0	0	0
5. 1997	XXX	XXX	XXX	0	0	0	0	0	0	0
6. 1998	XXX	XXX	XXX	XXX	0	0	0	0	0	0
7. 1999	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
8. 2000	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
9. 2001	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
10. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
11. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

States, etc.		1 Is Insurer Licensed? (Yes or No)	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken: 2 Direct Premiums Written	3 Direct Premiums Earned	4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
1. Alabama	AL	Yes	397,599	1,459,782	37,124	960,554	790,917	2,820,037	0	
2. Alaska	AK	Yes	416,765	1,049,256	(2,926)	1,881,866	357,792	684,576	0	
3. Arizona	AZ	Yes	365,650	2,380,812	(10,857)	4,746,451	1,329,253	8,998,785	0	
4. Arkansas	AR	Yes	24,603	467,931	(36,948)	1,259,275	158,688	1,729,405	0	
5. California	CA	Yes	69,653,797	130,499,984	(199,766)	80,198,040	67,671,514	136,610,462	24,610	
6. Colorado	CO	Yes	5,090,090	10,962,440	5,643	6,291,859	5,744,626	8,198,822	2,817	
7. Connecticut	CT	Yes	18,869,706	29,696,416	67	22,245,148	18,784,075	38,195,482	10,147	
8. Delaware	DE	Yes	699,524	2,039,012	2,652	2,683,452	1,401,044	3,802,429	322	
9. District of Columbia	DC	Yes	139,770	590,408	10,892	426,728	282,579	986,617	0	
10. Florida	FL	Yes	3,688,367	8,481,914	265,100	5,685,617	5,194,356	21,314,052	408	
11. Georgia	GA	Yes	11,160,445	17,070,194	126,272	15,375,201	4,147,801	11,144,412	6,016	
12. Hawaii	HI	Yes	735,765	1,194,743	(10,759)	538,370	1,425,359	2,130,406	0	
13. Idaho	ID	Yes	67,596	281,146	3,729	321,118	(611,781)	(279,777)	0	
14. Illinois	IL	Yes	7,498,152	16,838,171	(600,320)	19,470,925	8,566,787	22,488,664	3,252	
15. Indiana	IN	Yes	1,481,947	3,757,970	45,615	5,392,225	1,525,348	2,316,005	620	
16. Iowa	IA	Yes	(421,417)	439,792	16,011	2,037,555	(815,875)	5,674,685	0	
17. Kansas	KS	Yes	691,977	1,284,647	32,053	1,144,455	(160,478)	4,365,534	53	
18. Kentucky	KY	Yes	3,219,291	5,013,943	114,289	4,489,040	2,415,140	8,051,677	1,590	
19. Louisiana	LA	Yes	4,503,526	6,666,073	(467)	5,924,051	3,373,640	8,801,159	1,997	
20. Maine	ME	Yes	2,905,840	3,982,333	28,375	1,904,019	2,285,980	4,470,546	1,675	
21. Maryland	MD	Yes	3,186,029	7,100,804	34,063	9,146,798	9,045,811	15,815,597	1,971	
22. Massachusetts	MA	Yes	248,404	3,975,096	31,612	20,491,562	4,947,105	5,653,505	0	
23. Michigan	MI	Yes	(1,190,345)	2,980,772	210,578	6,302,865	716,491	7,765,080	0	
24. Minnesota	MN	Yes	737,582	2,300,590	(6,840)	2,412,126	615,770	1,584,299	66	
25. Mississippi	MS	Yes	3,517,847	5,941,894	(10,361)	4,906,080	3,027,159	7,468,137	1,835	
26. Missouri	MO	Yes	1,347,995	3,629,110	(18,289)	2,720,463	1,688,973	9,430,011	0	
27. Montana	MT	Yes	(474,543)	(269,864)	(193,353)	562,058	(120,525)	335,687	0	
28. Nebraska	NE	Yes	(157,838)	805,043	(12,425)	1,952,159	195,046	1,035,786	0	
29. Nevada	NV	Yes	274,368	1,172,515	11,431	837,497	(2,155,746)	3,075,656	0	
30. New Hampshire	NH	Yes	578,788	1,033,224	4,090	786,951	513,890	2,040,642	168	
31. New Jersey	NJ	Yes	2,616,019	8,818,559	156,140	17,491,372	(3,765,219)	20,517,080	0	
32. New Mexico	NM	Yes	704,194	1,533,845	(13,250)	718,685	853,313	2,172,908	163	
33. New York	NY	Yes	56,649,099	106,363,929	486,692	96,268,921	54,871,879	164,874,920	29,130	
34. North Carolina	NC	Yes	27,478,580	44,488,210	98,114	29,364,137	28,708,311	21,494,007	14,748	
35. North Dakota	ND	Yes	16,319	51,478	(21)	38,839	22,199	204,329	0	
36. Ohio	OH	Yes	1,452,235	4,658,144	29,445	7,603,787	4,738,918	10,720,665	0	
37. Oklahoma	OK	Yes	130,840	855,388	(6,817)	1,747,987	289,629	2,427,629	0	
38. Oregon	OR	Yes	1,982,778	5,680,705	(8,042)	4,828,511	3,435,087	5,786,441	1,323	
39. Pennsylvania	PA	Yes	4,717,919	12,265,182	64,568	19,225,671	5,438,794	30,493,092	1,744	
40. Rhode Island	RI	Yes	114,661	430,437	4,233	372,354	346,182	963,607	0	
41. South Carolina	SC	Yes	1,329,639	3,294,970	(952)	1,968,447	1,545,878	4,868,560	334	
42. South Dakota	SD	Yes	184,110	298,129	16,859	257,714	53,401	373,336	0	
43. Tennessee	TN	Yes	2,576,816	5,562,624	137,509	3,780,922	3,241,712	4,552,576	1,106	
44. Texas	TX	Yes	6,757,368	14,713,872	532,285	18,755,721	7,165,482	18,864,324	2,249	
45. Utah	UT	Yes	55,113	397,153	(6,039)	332,706	196,169	601,537	0	
46. Vermont	VT	Yes	97,976	250,185	2,337	592,915	46,249	1,726,376	0	
47. Virginia	VA	Yes	1,374,365	4,252,453	41,481	2,891,061	2,341,362	8,609,860	561	
48. Washington	WA	Yes	9,176,550	13,290,859	4,913	9,679,062	(617,714)	10,322,417	4,657	
49. West Virginia	WV	Yes	163,832	356,920	(799)	199,511	225,269	99,861	0	
50. Wisconsin	WI	Yes	4,508,515	7,217,065	766,814	6,822,488	2,969,462	8,336,833	1,028	
51. Wyoming	WY	Yes	(55,218)	49,286	(26,011)	40,859	41,285	18,281	0	
52. American Samoa	AS	No	0	0	0	0	0	0	0	
53. Guam	GU	No	0	0	0	0	0	0	0	
54. Puerto Rico	PR	No	0	0	0	0	0	0	0	
55. U.S. Virgin Islands	VI	Yes	0	1	0	0	1	1	0	
56. Canada	CN	No	0	0	0	0	0	0	0	
57. Aggregate Other Aliens	OT	XXX	100	362	0	(15,252)	2,076	21,393	0	0
58. Totals		(a) 52	261,289,088	507,655,906	2,155,744	456,060,925	254,490,460	664,758,412	114,590	0
DETAILS OF WRITE-INS										
5701. Europe		XXX	0	0	0	(15,252)	1,747	21,064	0	0
5702. Central & South America		XXX	0	262	0	0	224	224	0	0
5703. Africa		XXX	100	100	0	0	105	105	0	0
5798. Summary of remaining write-ins for Line 57 from overflow page		XXX	0	0	0	0	0	0	0	0
5799. Totals (Lines 5701 thru 5703 plus 5798) (Line 57 above)		XXX	100	362	0	(15,252)	2,076	21,393	0	0

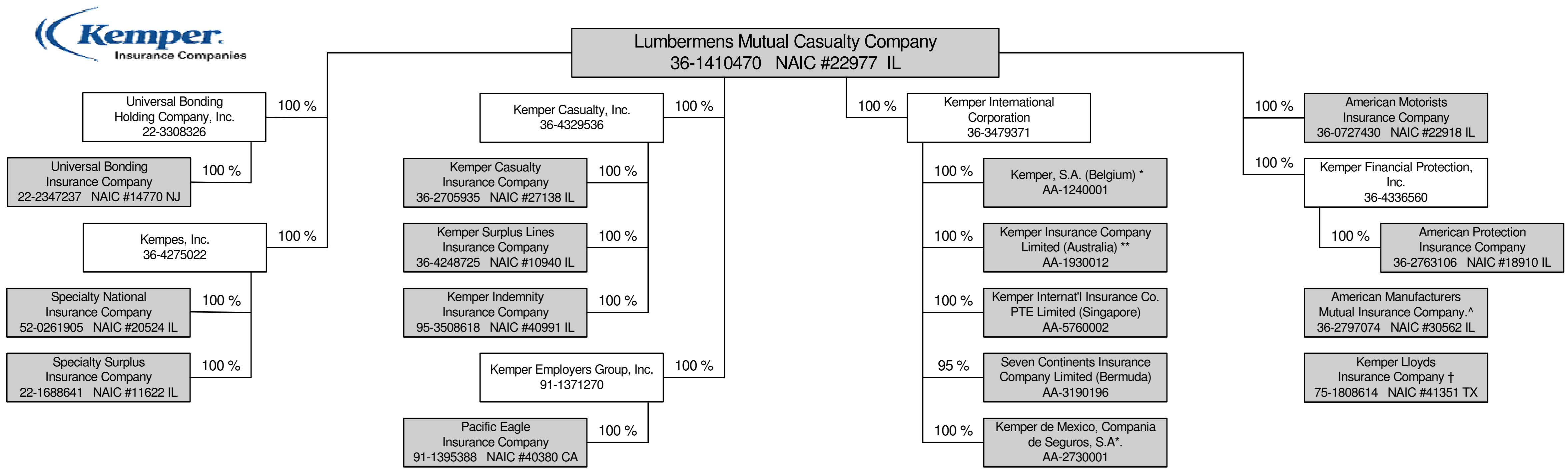
(a) Insert the number of yes responses except for Canada and Other Alien.

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

Premiums are allocated on the basis of the locations 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.