

KEMPER Corp  
Form 10-Q  
November 05, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For Quarterly Period Ended September 30, 2018

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-18298

Kemper Corporation  
(Exact name of registrant as specified in its charter)

Delaware 95-4255452  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

200 E. Randolph Street, Chicago, Illinois 60601  
(Address of principal executive offices) (Zip Code)  
(312) 661-4600  
(Registrant's telephone number, including area code)

One East Wacker Drive, Chicago, Illinois  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "accelerated filer, large accelerated filer, smaller reporting company and emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller Reporting Company  Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

64,747,142 shares of common stock, \$0.10 par value, were outstanding as of October 29, 2018.

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KEMPER CORPORATION  
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### Caution Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including, but not limited to, Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), Quantitative and Qualitative Disclosures About Market Risk, Risk Factors and the accompanying unaudited Condensed Consolidated Financial Statements (including the notes thereto) of Kemper Corporation (“Kemper”) and its subsidiaries (individually and collectively referred to herein as the “Company”) may contain or incorporate by reference information that includes or is based on forward-looking statements within the meaning of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. The reader can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as “believe(s),” “goal(s),” “target(s),” “estimate(s),” “anticipate(s),” “forecast(s),” “project(s),” “plan(s),” “intend(s),” “expect(s),” “might,” “may,” “could” terms of similar meaning. Forward-looking statements, in particular, include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results. Any or all forward-looking statements may turn out to be wrong, and, accordingly, Kemper cautions readers not to place undue reliance on such statements. Kemper bases these statements on current expectations and the current economic environment as of the date of this Quarterly Report on Form 10-Q. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance; actual results could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties that may be important in determining the Company’s actual future results and financial condition.

In addition to those factors discussed under Item 1A., “Risk Factors,” of Part I of Kemper’s Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (the “SEC”), for the year ended December 31, 2017 (the “2017 Annual Report”) as updated by Item 1A. of Part II of this Quarterly Report on Form 10-Q, the reader should consider the following list of general factors that, among others, could cause the Company’s actual results and financial condition to differ materially from estimated results and financial condition.

Factors related to the legal and regulatory environment in which Kemper and its subsidiaries operate

- Evolving practices and interpretations by regulators and courts that increase operating costs and potential liabilities, particularly any that involve retroactive application of new requirements, including, but not limited to, state initiatives related to unclaimed property laws or claims handling practices with respect to life insurance policies and the proactive use of death verification databases;

• Adverse outcomes in litigation or other legal or regulatory proceedings involving Kemper or its subsidiaries or affiliates;

• Governmental actions, including, but not limited to, implementation of new federal and state laws and regulations, and court decisions interpreting existing laws and regulations or policy provisions;

• Uncertainties related to regulatory approval of insurance rates, policy forms, insurance products, license applications, dividends from insurance subsidiaries, acquisitions of businesses and other matters within the purview of state insurance regulators;

Factors relating to insurance claims and related reserves in the Company’s insurance businesses

• The incidence, frequency and severity of catastrophes occurring in any particular reporting period or geographic area, including natural disasters, pandemics and terrorist attacks or other man-made events;

• The number and severity of insurance claims (including those associated with catastrophe losses);

• Changes in facts and circumstances affecting assumptions used in determining loss and loss adjustment expenses (“LAE”) reserves, including, but not limited to, the number and severity of insurance claims, changes in claims handling procedures and closure patterns and development patterns;

• The impact of inflation on insurance claims, including, but not limited to, the effects on personal injury claims of increasing medical costs and the effects on property claims attributed to scarcity of resources available to rebuild damaged structures, including labor and materials and the amount of salvage value recovered for damaged property;

• Developments related to insurance policy claims and coverage issues, including, but not limited to, interpretations or decisions by courts or regulators that may govern or influence losses incurred in connection with hurricanes and other

catastrophes;

Orders, interpretations or other actions by regulators that impact the reporting, adjustment and payment of claims;

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Changes in the pricing or availability of reinsurance, or in the financial condition of reinsurers and amounts recoverable therefrom;

Factors related to the Company's ability to compete

Changes in the ratings by rating agencies of Kemper and/or its insurance company subsidiaries with regard to credit, financial strength, claims paying ability and other areas on which the Company is rated;

The level of success and costs incurred in realizing or maintaining economies of scale, integrating acquired businesses and implementing significant business initiatives, including, but not limited to, those related to expense and claims savings, consolidations, reorganizations and technology;

Absolute and relative performance of the Company's products and services, including, but not limited to, the level of success achieved in designing and introducing new insurance products;

The ability of the Company to maintain the availability of critical systems and manage technology initiatives cost-effectively to address insurance industry developments and regulatory requirements;

Heightened competition, including, with respect to pricing, consolidations of existing competitors or entry of new competitors and alternate distribution channels, introduction of new technologies, emergence of telematics, refinements of existing products and development of new products by current or future competitors;

Expected benefits and synergies from mergers, acquisitions and/or divestitures that may not be realized to the extent anticipated, within expected time frames or at all, due to a number of factors including, but not limited to, the loss of key agents/brokers, customers or employees, increased costs, fees, expenses and related charges and delays caused by factors outside of the Company's control;

Factors relating to the business environment in which Kemper and its subsidiaries operate

Changes in general economic conditions, including, but not limited to, performance of financial markets, interest rates, inflation, unemployment rates and fluctuating values of particular investments held by the Company;

Absolute and relative performance of investments held by the Company;

Changes in insurance industry trends and significant industry developments;

Changes in consumer trends and significant consumer or product developments;

Changes in capital requirements, including the calculations thereof, used by regulators and rating agencies;

Regulatory, accounting or tax changes that may affect the cost of, or demand for, the Company's products or services or after-tax returns from the Company's investments;

The impact of required participation in windpools and joint underwriting associations, residual market assessments and assessments for insurance industry insolvencies;

Changes in distribution channels, methods or costs resulting from changes in laws or regulations, lawsuits or market forces;

Increased costs and risks related to cybersecurity and information technology, including, but not limited to, identity theft, data breaches and system disruptions affecting services and actions taken to minimize the risks thereof; and

Other risks and uncertainties described from time to time in Kemper's filings with the SEC

Kemper cannot provide any assurances that the results contemplated in any forward-looking statements will be achieved or will be achieved in any particular timetable or that future events or developments will not cause such statements to be inaccurate. Kemper assumes no obligation to correct or update any forward-looking statements publicly for any changes in events or developments or in the Company's expectations or results subsequent to the date of this Quarterly Report on Form 10-Q. Kemper advises the reader, however, to consult any further disclosures Kemper makes on related subjects in its filings with the SEC.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

KEMPER CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions, except per share amounts)

(Unaudited)

|  | Nine Months Ended |                 | Three Months Ended |                 |
|--|-------------------|-----------------|--------------------|-----------------|
|  | Sep 30,<br>2018   | Sep 30,<br>2017 | Sep 30,<br>2018    | Sep 30,<br>2017 |
| <b>Revenues:</b>   |                   |                 |                    |                 |
| Earned Premiums  | \$2,320.8         | \$1,744.1       | \$1,052.9          | \$598.2         |
| Net Investment Income  | 249.6             | 244.6           | 92.0               | 85.9            |
| Other Income   | 40.2              | 2.9             | 37.8               | 1.0             |
| Income from Change in Fair Value of Equity Securities                    | 12.1              | —               | 11.0               | —               |
| Net Realized Gains on Sales of Investments                               | 10.0              | 45.0            | 3.6                | 8.1             |
| <b>Other-than-temporary Impairment Losses:</b>                           |                   |                 |                    |                 |
| Total Other-than-temporary Impairment Losses                             | (2.3 )            | (10.7 )         | (1.8 )             | (2.9 )          |
| Portion of Losses Recognized in Other Comprehensive Income               | —                 | 0.2             | —                  | —               |
| Net Impairment Losses Recognized in Earnings                             | (2.3 )            | (10.5 )         | (1.8 )             | (2.9 )          |
| <b>Total Revenues</b>  | <b>2,630.4</b>    | <b>2,026.1</b>  | <b>1,195.5</b>     | <b>690.3</b>    |
| <b>Expenses:</b>   |                   |                 |                    |                 |
| Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses | 1,693.7           | 1,364.9         | 757.3              | 440.1           |
| Insurance Expenses   | 627.3             | 485.2           | 296.0              | 163.7           |
| Interest and Other Expenses  | 116.4             | 59.1            | 61.7               | 18.2            |
| <b>Total Expenses</b>  | <b>2,437.4</b>    | <b>1,909.2</b>  | <b>1,115.0</b>     | <b>622.0</b>    |
| Income from Continuing Operations before Income Taxes                    | 193.0             | 116.9           | 80.5               | 68.3            |
| Income Tax Benefit (Expense)   | (9.6 )            | (32.9 )         | 11.8               | (20.5 )         |
| Income from Continuing Operations  | 183.4             | 84.0            | 92.3               | 47.8            |
| Income (Loss) from Discontinued Operations                               | 0.2               | —               | (0.1 )             | (0.1 )          |
| <b>Net Income</b>  | <b>\$183.6</b>    | <b>\$84.0</b>   | <b>\$92.2</b>      | <b>\$47.7</b>   |
| <b>Income from Continuing Operations Per Unrestricted Share:</b>         |                   |                 |                    |                 |
| Basic  | \$3.26            | \$1.63          | \$1.42             | \$0.92          |
| Diluted  | \$3.23            | \$1.62          | \$1.40             | \$0.92          |
| <b>Net Income Per Unrestricted Share:</b>                                |                   |                 |                    |                 |
| Basic  | \$3.26            | \$1.63          | \$1.42             | \$0.92          |
| Diluted  | \$3.23            | \$1.62          | \$1.40             | \$0.92          |
| Dividends Paid to Shareholders Per Share                                 | \$0.72            | \$0.72          | \$0.24             | \$0.24          |

The Notes to the Condensed Consolidated Financial Statements are an integral part of these financial statements.

KEMPER CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)

(Unaudited)

|  | Nine Months<br>Ended |                 | Three Months<br>Ended |                 |
|--|----------------------|-----------------|-----------------------|-----------------|
|  | Sep 30,<br>2018      | Sep 30,<br>2017 | Sep 30,<br>2018       | Sep 30,<br>2017 |
| Net Income   | \$183.6              | \$84.0          | \$92.2                | \$47.7          |
| Other Comprehensive Income (Loss) Before Income Taxes:               |                      |                 |                       |                 |
| Unrealized Holding Gains (Losses)                                    | (232.1 )             | 82.8            | (49.9 )               | 15.6            |
| Foreign Currency Translation Adjustments                             | 0.3                  | 0.9             | —                     | 0.1             |
| Decrease (Increase) in Net Unrecognized Postretirement Benefit Costs | 0.8                  | (0.4 )          | 0.2                   | (0.1 )          |
| Gain (Loss) on Cash Flow Hedges                                      | 1.1                  | (6.6 )          | 0.9                   | (0.1 )          |
| Other Comprehensive Income (Loss) Before Income Taxes                | (229.9 )             | 76.7            | (48.8 )               | 15.5            |
| Other Comprehensive Income Tax Benefit (Expense)                     | 48.3                 | (27.3 )         | 10.2                  | (5.7 )          |
| Other Comprehensive Income (Loss)                                    | (181.6 )             | 49.4            | (38.6 )               | 9.8             |
| Total Comprehensive Income   | \$2.0                | \$133.4         | \$53.6                | \$57.5          |

The Notes to the Condensed Consolidated Financial Statements are an integral part of these financial statements.



KEMPER CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share amounts)

(Unaudited)

|   | Sep 30,<br>2018 | Dec 31,<br>2017 |
|---|-----------------|-----------------|
| Assets:   |                 |                 |
| Investments:  |                 |                 |
| Fixed Maturities at Fair Value (Amortized Cost: 2018 - \$5,972.4; 2017 - \$5,021.6)   | \$6,108.6       | \$5,382.7       |
| Equity Securities at Fair Value   | 815.8           | 526.0           |
| Equity Securities at Modified Cost  | 50.9            | —               |
| Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings  | 170.0           | 161.0           |
| Fair Value Option Investments   | —               | 77.5            |
| Short-term Investments at Cost which Approximates Fair Value  | 688.5           | 235.5           |
| Other Investments   | 412.8           | 422.2           |
| Total Investments   | 8,246.6         | 6,804.9         |
| Cash  | 92.8            | 45.7            |
| Receivables from Policyholders  | 1,029.9         | 366.0           |
| Other Receivables   | 243.1           | 194.3           |
| Deferred Policy Acquisition Costs   | 447.4           | 365.3           |
| Goodwill  | 1,091.2         | 323.0           |
| Current Income Tax Assets   | 58.1            | 6.1             |
| Other Assets  | 563.5           | 270.9           |
| Total Assets  | \$11,772.6      | \$8,376.2       |
| Liabilities and Shareholders' Equity:   |                 |                 |
| Insurance Reserves:   |                 |                 |
| Life and Health   | \$3,551.4       | \$3,521.0       |
| Property and Casualty   | 1,819.1         | 1,016.8         |
| Total Insurance Reserves  | 5,370.5         | 4,537.8         |
| Unearned Premiums   | 1,470.9         | 653.9           |
| Deferred Income Tax Liabilities   | 40.4            | 14.8            |
| Liabilities for Unrecognized Tax Benefits   | 4.5             | 8.1             |
| Debt, Current and Non-current, at Amortized Cost (Fair Value: 2018 - \$1,127.7; 2017 - \$614.6)   | 1,123.7         | 592.3           |
| Accrued Expenses and Other Liabilities  | 698.8           | 453.7           |
| Total Liabilities   | 8,708.8         | 6,260.6         |
| Shareholders' Equity:   |                 |                 |
| Common Stock, \$0.10 Par Value, 100 Million Shares Authorized; 64,737,807 Shares Issued and Outstanding at September 30, 2018 and 51,462,405 Shares Issued and Outstanding at December 31, 2017 | 6.5             | 5.1             |
| Paid-in Capital   | 1,661.3         | 673.1           |
| Retained Earnings   | 1,365.1         | 1,243.0         |
| Accumulated Other Comprehensive Income  | 30.9            | 194.4           |
| Total Shareholders' Equity  | 3,063.8         | 2,115.6         |
| Total Liabilities and Shareholders' Equity  | \$11,772.6      | \$8,376.2       |

The Notes to the Condensed Consolidated Financial Statements are an integral part of these financial statements.

KEMPER CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

|   | Nine Months<br>Ended |                 |
|---|----------------------|-----------------|
|   | Sep 30,<br>2018      | Sep 30,<br>2017 |
| Operating Activities:   |                      |                 |
| Net Income  | \$183.6              | \$84.0          |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:           |                      |                 |
| Amortization of Intangible Assets Acquired  | 106.1                | 3.9             |
| Equity in Earnings of Equity Method Limited Liability Investments                           | (8.1 )               | (21.9 )         |
| Distribution of Accumulated Earnings of Equity Method Limited Liability Investments         | 9.2                  | 15.9            |
| Decrease (Increase) in Value of Fair Value Option Investments Reported in Investment Income | —                    | (0.9 )          |
| Decrease (Increase) in Value of Equity Securities at Fair Value                             | (12.1 )              | —               |
| Amortization of Investment Securities and Depreciation of Investment Real Estate            | 6.9                  | 12.8            |
| Net Realized Gains on Sales of Investments  | (10.0 )              | (45.0 )         |
| Net Impairment Losses Recognized in Earnings  | 2.3                  | 10.5            |
| Depreciation of Property and Equipment  | 12.2                 | 9.8             |
| Increase in Receivables   | (102.3 )             | (27.2 )         |
| Increase in Deferred Policy Acquisition Costs   | (82.1 )              | (29.6 )         |
| Increase in Insurance Reserves  | 131.8                | 71.4            |
| Increase in Unearned Premiums   | 102.3                | 53.3            |
| Change in Income Taxes  | 4.6                  | 27.4            |
| Change in Accrued Expenses and Other Liabilities  | (10.5 )              | (1.5 )          |
| Other, Net  | 11.4                 | 1.6             |
| Net Cash Provided by Operating Activities   | 345.3                | 164.5           |
| Investing Activities:   |                      |                 |
| Sales, Paydowns and Maturities of Fixed Maturities  | 2,133.7              | 367.7           |
| Purchases of Fixed Maturities   | (1,520.7)            | (401.8 )        |
| Sales of Equity Securities  | 186.6                | 230.3           |
| Purchases of Equity Securities  | (344.3 )             | (233.5 )        |
| Return of Investment of Equity Method Limited Liability Investments                         | 7.3                  | 36.3            |
| Acquisitions of Equity Method Limited Liability Investments                                 | (17.4 )              | (14.5 )         |
| Sales of Fair Value Option Investments  | —                    | 42.2            |
| Purchases of Fair Value Option Investments  | —                    | (7.0 )          |
| Decrease (Increase) in Short-term Investments   | (351.6 )             | 40.4            |
| Improvements of Investment Real Estate  | (1.0 )               | (1.3 )          |
| Sales of Investment Real Estate   | —                    | 26.2            |
| Increase (Decrease) in Other Investments  | 0.6                  | (1.3 )          |
| Acquisition and Development of Software   | (53.9 )              | (28.8 )         |
| Acquisition of Business, Net of Cash Acquired   | (560.6 )             | —               |
| Other, Net  | 4.6                  | (4.4 )          |
| Net Cash Provided (Used) by Investing Activities  | (516.7 )             | 50.5            |
| Financing Activities:   |                      |                 |
| Net Proceeds from Issuance of Long-term Debt  | 249.0                | 200.2           |
| Repayment of Long-term Debt   | —                    | (360.0 )        |
| Dividends and Dividend Equivalents Paid   | (40.7 )              | (37.1 )         |

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|  |        |          |
|--|--------|----------|
| Proceeds from Advances from FHLB                 | 10.0   | —        |
| Cash Exercise of Stock Options                   | 0.7    | 3.7      |
| Other, Net                                       | (0.5   | ) 0.1    |
| Net Cash Provided (Used) by Financing Activities | 218.5  | (193.1 ) |
| Increase in Cash                                 | 47.1   | 21.9     |
| Cash, Beginning of Year                          | 45.7   | 115.7    |
| Cash, End of Period                              | \$92.8 | \$137.6  |

The Notes to the Condensed Consolidated Financial Statements are an integral part of these financial statements.

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KEMPER CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - Basis of Presentation

The Condensed Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the SEC and include the accounts of Kemper Corporation and its subsidiaries (individually and collectively referred to herein as the “Company”) and are unaudited. All significant intercompany accounts and transactions have been eliminated.

Certain financial information that is normally included in annual financial statements, including certain financial statement footnote disclosures, prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) is not required by the rules and regulations of the SEC for interim financial reporting and has been condensed or omitted. In the opinion of the Company’s management, the Condensed Consolidated Financial Statements include all adjustments necessary for a fair presentation. The preparation of interim financial statements relies heavily on estimates. This factor and other factors, such as the seasonal nature of some portions of the insurance business, as well as market conditions, call for caution in drawing specific conclusions from interim results. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Company’s Consolidated Financial Statements and related notes included in the 2017 Annual Report.

Adoption of New Accounting Guidance

Guidance Adopted in 2018

Effective January 1, 2018, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Most significantly, ASU 2016-01 requires companies to measure equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily-determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer (“Modified Cost”). ASU 2016-01 also simplifies the impairment assessment of equity investments without readily-determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that an impairment of an equity investment without readily-determinable fair value exists, an entity is required to re-measure such investment at fair value.

The Company applied the modified retrospective transition method, except for the provisions regarding equity investments without readily determinable fair values, which were applied on a prospective basis, with no impact on the Company’s Total Shareholders’ Equity. The Company recognized a \$17.7 million increase to Retained Earnings, and a corresponding reduction to Accumulated Other Comprehensive Income (“AOCI”), as of January 1, 2018, which represents the accumulated net unrealized gains on Equity Securities at Fair Value immediately prior to the adoption of ASU 2016-01. The Company has recorded equity investments without readily-determinable fair values under the caption Equity Securities at Modified Cost in the Condensed Consolidated Balance Sheets. As a result of adopting ASU 2016-01, the Company revised its accounting policy as of January 1, 2018 and no longer classifies equity investments as available-for-sale or trading securities. Equity securities with readily-determinable fair values, including equity securities which the Company previously classified as Fair Value Option Investments, are classified as Equity Securities at Fair Value in the Condensed Consolidated Balance Sheet at September 30, 2018 with changes in fair value recorded as Income from Change in Fair Value of Equity Securities in the Condensed Consolidated Statement of Income for the nine and three months ended September 30, 2018. The Company anticipates ASU 2016-01 will result in increased volatility within the Condensed Consolidated Statements of Income in future periods. Effective January 1, 2018, the Company early adopted ASU 2018-02, Reclassification of Certain Income Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 provides companies the option to reclassify tax effects stranded in AOCI, as a result of the 2017 Tax Cuts and Jobs Act (the “Tax Act”), to retained earnings. The Company elected to reclassify tax effects stranded in AOCI and recognized a decrease to Retained Earnings and a corresponding increase to AOCI of \$35.9 million as of January 1, 2018. The adoption of ASU 2018-02 had no impact

on Total Shareholders' Equity.

On January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. ASU 2014-09 specifically excludes insurance contracts, lease contracts and investments from its scope. Accordingly, the adoption of ASU 2014-09 had no material impact on the Company's net income or its financial position.

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KEMPER CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

Note 1 - Basis of Presentation (continued)

Guidance Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), by amending the Accounting Standards Codification and creating a new topic on accounting for leases. ASU 2016-02 introduces a lessee model that requires most leases to be reported on the balance sheet of a lessee. ASU 2016-02 also aligns many of the underlying principles of the new lessor model with those in ASC Topic 606, Revenue from Contracts with Customers, the FASB's new revenue recognition standard (e.g., those related to evaluating when profit can be recognized). Furthermore, ASU 2016-02 addresses other concerns related to the current leases model. For example, ASU 2016-02 eliminates the requirement in current GAAP for an entity to use bright-line tests in determining lease classification. ASU 2016-02 also requires lessors to increase the transparency of their exposure to changes in value of their residual assets and how they manage that exposure. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those years with early adoption permitted. The Company does not expect adoption to have a material impact on its financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with a methodology that utilizes expected credit losses to provide for an allowance for credit losses for financial instruments and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement includes the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. Credit losses on available-for-sale debt securities are measured in a manner similar to current GAAP, although the ASU requires that they be presented as an allowance rather than as a write-down. In situations where the estimate of credit loss on an available-for-sale debt security declines, entities will be able to record the reversal to income in the current period, which GAAP currently prohibits. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods with early adoption permitted for fiscal years beginning after December 31, 2018 and interim periods within such year. The Company is currently evaluating the impact of this guidance on its financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Derivatives and Hedging Activities. ASU 2017-12 aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in ASU 2017-12 expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Furthermore, the amendments make certain targeted improvements to simplify the application of hedge accounting guidance and ease the administration of hedge documentation requirements and assessing hedge effectiveness. ASU 2017-12 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods with early adoption permitted. The Company does not expect adoption to have a material impact on its financial statements.

In August 2018, the FASB issued ASU 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to Accounting for Long-Duration Contracts. ASU 2018-12 amends the accounting model for certain long-duration insurance contracts and requires the insurer to provide additional disclosures in annual and interim reporting periods. ASU 2018-12 is effective for fiscal years beginning after December 15, 2020, including interim periods therein. The amendments in ASU 2018-12 are intended to improve measurement of the liability for future policy benefits related to nonparticipating traditional and limited-payment contracts, measurement and presentation of market risk benefits,

amortization of deferred acquisition costs, and enhance presentation and disclosures. The Company is currently evaluating the impact of this guidance on its financial statements.

The Company has adopted all other recently issued accounting pronouncements with effective dates prior to October 1, 2018. There were no adoptions of such accounting pronouncements during the nine months ended September 30, 2018 that had a material impact on the Company's Condensed Consolidated Financial Statements. With the possible exceptions of ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to Accounting for Long-Duration Contracts, the Company does not expect the adoption of recently issued accounting pronouncements with effective dates after September 30, 2018 to have a material impact on the Company's financial statements and/or disclosures.

## KEMPER CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

## Note 2 - Acquisition of Business

## Acquisition of Infinity Property and Casualty Corporation

On July 2, 2018, Kemper acquired 100% of the outstanding common stock of Infinity Property and Casualty Corporation (“Infinity”), pursuant to the terms of the merger agreement dated February 13, 2018, with total cash, stock and equity-based compensation consideration paid to Infinity shareholders of approximately \$1.5 billion. In conjunction with closing the acquisition, Kemper issued 13,184,107 shares, with an aggregate fair value of \$982.5 million based on Kemper’s July 2, 2018 stock price of \$74.53 per share, and paid \$564.6 million in cash consideration to Infinity’s shareholders. In addition, Kemper issued 44,010 restricted units under Kemper’s equity-based compensation plan to replace Infinity restricted shares that were outstanding immediately prior to the closing. The aggregate fair value of such Kemper restricted units granted was \$3.3 million at July 2, 2018, of which \$1.6 million is attributed to service provided prior to the closing and included in consideration paid. The remaining amount of \$1.7 million is attributed to future service and will be recognized in compensation expense primarily over a period of two years. The cash consideration was funded by cash on hand as of July 2, 2018, inclusive of \$250.0 million in borrowings under the Company’s delayed draw term loan facility and \$110.0 million of Kemper subsidiary borrowings from the FHLB of Dallas and FHLB of Chicago. On July 13, 2018, Kemper subsidiaries repaid in full the \$110.0 million of FHLB borrowings, plus accrued interest. See Note 5, Debt for additional information. Infinity is a national provider of auto insurance focused on serving the specialty, nonstandard segment. With approximately 10,600 independent agents and \$1.4 billion in 2017 direct written premiums, Infinity is one of the largest nonstandard auto insurers in the United States.

The Company has not yet completed the process of estimating the fair value of assets acquired and liabilities assumed, including, but not limited to, receivables, intangible assets, unearned premium reserves, certain tax-related balances and certain other asset and liabilities. Accordingly, the Company’s preliminary estimates and the allocation of the purchase price to the assets acquired and liabilities assumed may change as the Company completes the process, which would also likely impact the Company’s allocation of the purchase price to Goodwill. In accordance with Accounting Standards Codification (“ASC”) 805, Business Combinations, changes if any, to the preliminary estimates and allocation will be reported in the Company’s financial statements as an adjustment to the opening balance sheet. Based on the Company’s preliminary allocation of the purchase price, the fair values of the assets acquired and liabilities assumed were:

(Dollars in Millions)

|  |           |
|--|-----------|
| Investments  | \$1,569.3 |
| Short Term Investments   | 98.8      |
| Cash   | 4.0       |
| Receivables from Policyholders                                 | 582.3     |
| Other Receivables  | 31.9      |
| Value of Intangible Assets Acquired (Reported in Other Assets) | 262.7     |
| Goodwill   | 768.2     |
| Other Assets   | 102.1     |
| Property and Casualty Insurance Reserves                       | (701.4 )  |
| Unearned Premiums  | (714.6 )  |
| Debt   | (282.1 )  |
| Current Income Tax Liabilities                                 | (1.8 )    |
| Deferred Income Tax Liabilities                                | (12.2 )   |
| Accrued Expenses and Other Liabilities                         | (158.5 )  |
| Total Purchase Price   | 1,548.7   |

Unaudited Pro Forma Results



The following unaudited pro forma information presents the Company's results of operations as if the acquisition of Infinity occurred on January 1, 2017. The adjustments to arrive at the pro forma information below included adjustments for the lost investment income on the cash used to fund the acquisition, amortization of the fair value adjustment on Infinity investments, amortization of the acquired intangible assets, interest expense on debt incurred to finance the acquisition and the exclusion of

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KEMPER CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

Note 2 - Acquisition of Business (continued)

certain acquisition related costs considered to be non-recurring in nature. Shares used to calculate the basic and diluted earnings per share were adjusted to reflect the additional shares of common stock issued to fund the acquisition.

| (Dollars in millions, except per share amounts)       | Nine Months<br>Ended |                 | Three Months<br>Ended |                 |
|---|----------------------|-----------------|-----------------------|-----------------|
|   | Sep 30,<br>2018      | Sep 30,<br>2017 | Sep 30,<br>2018       | Sep 30,<br>2017 |
| Total Revenues  | \$3,375.2            | \$3,080.3       | \$1,194.9             | \$1,044.4       |
| Total Expenses  | 3,065.7              | 2,995.8         | 1,044.4               | 966.6           |
| Income from Continuing Operations before Income Taxes | 309.5                | 84.5            | 150.5                 | 77.8            |
| Net Income  | \$275.5              | \$54.8          | \$147.5               | \$53.0          |
| Net Income Per Unrestricted Share:                    |                      |                 |                       |                 |
| Basic   | \$4.26               | \$0.85          | \$2.28                | \$0.82          |
| Diluted   | \$4.23               | \$0.85          | \$2.26                | \$0.82          |

The pro forma information is not necessarily indicative of the consolidated results of operations that might have been achieved had the transaction in fact occurred at the beginning of the periods presented, nor does the information project results for any future period. The pro forma information does not include the impact of any future cost savings or synergies that may be achieved as a result of the acquisition.

Note 3 - Investments

Fixed Maturities

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at September 30, 2018 were:

| (Dollars in Millions)                                   | Amortized<br>Cost | Gross<br>Unrealized |          | Fair<br>Value |
|---|-------------------|---------------------|----------|---------------|
|   |                   | Gains               | Losses   |               |
| U.S. Government and Government Agencies and Authorities | \$ 876.5          | \$10.8              | \$(28.4) | \$858.9       |
| States and Political Subdivisions                       | 1,485.6           | 62.5                | (14.6)   | 1,533.5       |
| Foreign Governments                                     | 6.2               | —                   | (0.5)    | 5.7           |
| Corporate Securities:                                   |                   |                     |          |               |
| Bonds and Notes   | 3,118.9           | 145.5               | (41.9)   | 3,222.5       |
| Collateralized Loan Obligations                         | 470.2             | 2.9                 | (1.0)    | 472.1         |
| Other Mortgage- and Asset-backed                        | 15.0              | 1.0                 | (0.1)    | 15.9          |
| Investments in Fixed Maturities                         | \$ 5,972.4        | \$222.7             | \$(86.5) | \$6,108.6     |

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at December 31, 2017 were:

| (Dollars in Millions)                                   | Amortized<br>Cost | Gross<br>Unrealized |         | Fair<br>Value |
|---|-------------------|---------------------|---------|---------------|
|   |                   | Gains               | Losses  |               |
| U.S. Government and Government Agencies and Authorities | \$ 542.7          | \$19.6              | \$(6.2) | \$556.1       |
| States and Political Subdivisions                       | 1,595.5           | 108.6               | (2.3)   | 1,701.8       |
| Foreign Governments                                     | 3.0               | 0.2                 | —       | 3.2           |
| Corporate Securities:                                   |                   |                     |         |               |
| Bonds and Notes   | 2,745.8           | 245.8               | (11.0)  | 2,980.6       |

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|                                  |            |          |          |            |
|----------------------------------|------------|----------|----------|------------|
| Redeemable Preferred Stocks      | 0.1        | —        | —        | 0.1        |
| Collateralized Loan Obligations  | 134.1      | 5.7      | —        | 139.8      |
| Other Mortgage- and Asset-backed | 0.4        | 0.7      | —        | 1.1        |
| Investments in Fixed Maturities  | \$ 5,021.6 | \$ 380.6 | \$(19.5) | \$ 5,382.7 |

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## KEMPER CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

## Note 3 - Investments (continued)

Other Receivables included \$16.9 million unsettled sales of Investments in Fixed Maturities at September 30, 2018, compared to no unsettled sales of Investments in Fixed Maturities at December 31, 2017. Accrued Expenses and Other Liabilities included unsettled purchases of Investments in Fixed Maturities of \$105.8 million and \$5.4 million at September 30, 2018 and December 31, 2017, respectively.

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at September 30, 2018 by contractual maturity were:

| (Dollars in Millions)   | Amortized Cost | Fair Value |
|---|----------------|------------|
| Due in One Year or Less   | \$ 154.0       | \$ 156.0   |
| Due after One Year to Five Years  | 1,087.6        | 1,094.9    |
| Due after Five Years to Ten Years                                       | 1,717.7        | 1,735.8    |
| Due after Ten Years   | 1,884.4        | 2,006.2    |
| Mortgage- and Asset-backed Securities Not Due at a Single Maturity Date | 1,128.7        | 1,115.7    |
| Investments in Fixed Maturities   | \$ 5,972.4     | \$ 6,108.6 |

The expected maturities of the Company's Investments in Fixed Maturities may differ from the contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investments in Mortgage- and Asset-backed Securities Not Due at a Single Maturity Date at September 30, 2018 consisted of securities issued by the Government National Mortgage Association with a fair value of \$615.6 million, securities issued by the Federal National Mortgage Association with a fair value of \$8.9 million, securities issued by the Federal Home Loan Mortgage Corporation with a fair value of \$3.2 million and securities of other non-governmental issuers with a fair value of \$488.0 million.

An aging of unrealized losses on the Company's Investments in Fixed Maturities at September 30, 2018 is presented below.

| (Dollars in Millions)                                   | Less Than 12 Months |                   | 12 Months or Longer |                   | Total      |                   |
|---|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| Fixed Maturities:                                       |                     |                   |                     |                   |            |                   |
| U.S. Government and Government Agencies and Authorities | \$594.0             | \$ (20.0 )        | \$56.5              | \$ (8.4 )         | \$650.5    | \$ (28.4 )        |
| States and Political Subdivisions                       | 486.4               | (14.6 )           | —                   | —                 | 486.4      | (14.6 )           |
| Foreign Governments                                     | 4.8                 | (0.5 )            | —                   | —                 | 4.8        | (0.5 )            |
| Corporate Securities:                                   |                     |                   |                     |                   |            |                   |
| Bonds and Notes   | 1,237.5             | (32.2 )           | 302.3               | (9.7 )            | 1,539.8    | (41.9 )           |
| Collateralized Loan Obligations                         | 204.6               | (1.0 )            | —                   | —                 | 204.6      | (1.0 )            |
| Other Mortgage- and Asset-backed                        | 7.5                 | (0.1 )            | —                   | —                 | 7.5        | (0.1 )            |
| Total Fixed Maturities                                  | 2,534.8             | (68.4 )           | 358.8               | (18.1 )           | 2,893.6    | (86.5 )           |

The Company regularly reviews its fixed maturity investment portfolio for factors that may indicate that a decline in fair value of an investment is other than temporary. The portions of the declines in the fair values of fixed maturity investments that are determined to be other than temporary are reported as losses in the Condensed Consolidated Statements of Income in the periods when such determinations are made.

Unrealized losses on fixed maturities, which the Company has determined to be temporary at September 30, 2018, were \$86.5 million, of which \$18.1 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were no unrealized losses at September 30, 2018 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "Less Than 12 Months." There were no unrealized losses at September 30, 2018 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "12 Months or Longer." Investment-grade fixed maturity investments comprised \$77.3 million and below-investment-grade fixed maturity investments comprised \$9.2 million of the unrealized losses on investments in fixed maturities

KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

Note 3 - Investments (continued)

at September 30, 2018. For below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was approximately 4% of the amortized cost basis of the investment. At September 30, 2018, the Company did not have the intent to sell these investments, and it was not more likely than not that the Company would be required to sell these investments before it recovered the amortized cost of such investments, which may be at maturity. Based on the Company's evaluation at September 30, 2018 of the prospects of the issuers, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities, and the Company's intention to not sell and its determination that it would not be required to sell before it recovered the amortized cost of such investments, the Company concluded that the declines in the fair values of the Company's investments in fixed maturities presented in the preceding table were temporary at the evaluation date.

An aging of unrealized losses on the Company's Investments in Fixed Maturities at December 31, 2017 is presented below.

| (Dollars in Millions)                                   | Less Than 12 |                   | 12 Months or |                   | Total      |                   |
|---|--------------|-------------------|--------------|-------------------|------------|-------------------|
|   | Fair Value   | Unrealized Losses | Fair Value   | Unrealized Losses | Fair Value | Unrealized Losses |
| Fixed Maturities:                                       |              |                   |              |                   |            |                   |
| U.S. Government and Government Agencies and Authorities | \$140.0      | \$ (1.1 )         | \$103.4      | \$ (5.1 )         | \$243.4    | \$ (6.2 )         |
| States and Political Subdivisions                       | 57.0         | (0.3 )            | 124.2        | (2.0 )            | 181.2      | (2.3 )            |
| Corporate Securities:                                   |              |                   |              |                   |            |                   |
| Bonds and Notes   | 283.1        | (4.2 )            | 208.9        | (6.8 )            | 492.0      | (11.0 )           |
| Collateralized Loan Obligations                         | 2.8          | —                 | 2.4          | —                 | 5.2        | —                 |
| Total Fixed Maturities                                  | 482.9        | (5.6 )            | 438.9        | (13.9 )           | 921.8      | (19.5 )           |

Unrealized losses on fixed maturities, which the Company determined to be temporary at December 31, 2017, were \$19.5 million, of which \$13.9 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were no unrealized losses at December 31, 2017 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "Less Than 12 Months." There were no unrealized losses at December 31, 2017 related to securities for which the Company has recognized credit losses in earnings in the preceding table under the heading "12 Months or Longer." Investment-grade fixed maturity investments comprised \$12.6 million and below-investment-grade fixed maturity investments comprised \$6.9 million of the unrealized losses on investments in fixed maturities at December 31, 2017. For below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was approximately 4% of the amortized cost basis of the investment. At December 31, 2017, the Company did not have the intent to sell these investments, and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost basis, which may be at maturity. Based on the Company's evaluation at December 31, 2017 of the prospects of the issuers, including, but not limited to, the credit ratings of the issuers of the investments in the fixed maturities, and the Company's intention to not sell and its determination that it would not be required to sell before recovery of the amortized cost of such investments, the Company concluded that the declines in the fair values of the Company's investments in fixed maturities presented in the preceding table were temporary at the evaluation date.

The following table sets forth the pre-tax amount of other than temporary impairment ("OTTI") credit losses recognized in Retained Earnings for Investments in Fixed Maturities held by the Company as of the beginning and end of the periods presented for which a portion of the OTTI loss related to factors other than credit has been recognized in AOCI, and the corresponding changes in such amounts.



KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

## Note 3 - Investments (continued)

| (Dollars in Millions)   | Nine Months<br>Ended<br>Sep 30 |        | Three Months<br>Ended<br>Sep 30 |        |
|---|--------------------------------|--------|---------------------------------|--------|
|   | 2018                           | 2017   | 2018                            | 2017   |
| Cumulative Balance of Pre-tax Credit Losses Recognized in Retained Earnings at Beginning of Period                            | \$1.6                          | \$ 1.4 | \$1.6                           | \$ 2.4 |
| Pre-tax Credit Losses on Fixed Maturities without Pre-tax Credit Losses Included in Cumulative Balance at Beginning of Period | —                              | 1.2    | —                               | —      |
| Reductions for Change in Impairment Status:   |                                |        |                                 |        |
| From Status of Credit Loss to Status of Intent-to-sell or Required-to-sell  | (0.5 )                         | —      | (0.5 )                          | —      |
| Reductions for Investments Sold During Period   | —                              | (0.3 ) | —                               | (0.1 ) |
| Cumulative Balance of Pre-tax Credit Losses Recognized in Retained Earnings at End of Period                                  | \$1.1                          | \$ 2.3 | \$1.1                           | \$ 2.3 |

## Equity Securities

Investments in Equity Securities at Fair Value were \$815.8 million and \$526.0 million at September 30, 2018 and December 31, 2017, respectively. Net unrealized gains arising during the nine months ended September 30, 2018 and recognized in earnings, related to such investments still held as of September 30, 2018, were \$12.4 million.

For Equity Securities at Modified Cost, the Company performs a qualitative impairment analysis on a quarterly basis consisting of various factors such as earnings performance, current market conditions, changes in credit ratings, changes in the regulatory environment and other factors. If the qualitative analysis identifies the presence of impairment indicators, the Company estimates the fair value of the investment. If the estimated fair value is below the carrying value, the Company records an other-than-temporary impairment in the Condensed Consolidated Statement of Income to reduce the carrying value to the estimated fair value. When the Company identifies observable transactions of the same or similar securities to those held by the Company, the Company increases or decreases the carrying value to the observable transaction price. The Company did not recognize any increases or decreases in the carrying value due to observable transactions. The Company recognized an impairment of \$1.8 million on Equity Securities at Modified Cost for the nine months ended September 30, 2018 as a result of the Company's qualitative impairment analysis. Impairments of \$1.6 million were recognized during the three months ended September 30, 2018. The Company has recognized no cumulative increases in the carrying value due to observable transactions, no cumulative decreases in the carrying value due to observable transactions and \$1.8 million of cumulative impairments on Equity Securities at Modified Cost held as of September 30, 2018.

There were no unsettled sales of Investments in Equity Securities at September 30, 2018 and December 31, 2017.

There were no unsettled purchases of Investments in Equity Securities at September 30, 2018 and December 31, 2017.

Equity Method Limited Liability Investments include investments in limited liability investment companies and limited partnerships in which the Company's interests are not deemed minor and are accounted for under the equity method of accounting. The Company's investments in Equity Method Limited Liability Investments are generally of a passive nature in that the Company does not take an active role in the management of the investment entity. The Company's maximum exposure to loss at September 30, 2018 is limited to the total carrying value of \$170.0 million. In addition, the Company had outstanding commitments totaling approximately \$96.4 million to fund Equity Method Limited Liability Investments at September 30, 2018.

## Other Investments

The carrying values of the Company's Other Investments at September 30, 2018 and December 31, 2017 were:

| (Dollars in Millions) | Sep 30, Dec 31,<br>2018 2017 |  |
|-----------------------|------------------------------|--|
|                       |                              |  |



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|  |         |         |
|--|---------|---------|
| Loans to Policyholders at Unpaid Principal | \$298.0 | \$298.6 |
| Real Estate at Depreciated Cost            | 114.8   | 116.8   |
| Trading Securities at Fair Value           | —       | 6.7     |
| Other                                      | —       | 0.1     |
| Total                                      | \$412.8 | \$422.2 |

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KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

## Note 3 - Investments (continued)

## Net Investment Income

Net Investment Income for the nine and three months ended September 30, 2018 and 2017 was:

| (Dollars in Millions)  | Nine Months     |                 | Three Months    |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | Ended           |                 | Ended           |                 |
|  | Sep 30,<br>2018 | Sep 30,<br>2017 | Sep 30,<br>2018 | Sep 30,<br>2017 |
| Investment Income:   |                 |                 |                 |                 |
| Interest on Fixed Income Securities                              | \$ 197.4        | \$ 184.0        | \$ 70.6         | \$ 61.8         |
| Dividends on Equity Securities Excluding Alternative Investments | 7.0             | 7.0             | 2.5             | 2.6             |
| Alternative Investments:   |                 |                 |                 |                 |
| Equity Method Limited Liability Investments                      | 8.1             | 21.9            | (0.4 )          | 11.1            |
| Fair Value Option Investments                                    | —               | 1.0             | —               | 0.5             |
| Limited Liability Investments Included in Equity Securities      | 22.8            | 18.7            | 13.7            | 5.9             |
| Total Alternative Investments                                    | 30.9            | 41.6            | 13.3            | 17.5            |
| Short-term Investments   | 4.3             | 1.0             | 2.3             | 0.5             |
| Loans to Policyholders   | 16.5            | 15.7            | 5.5             | 4.9             |
| Real Estate  | 7.2             | 8.3             | 2.4             | 2.6             |
| Other  | 0.6             | 0.2             | 0.2             | 0.1             |
| Total Investment Income  | 263.9           | 257.8           | 96.8            | 90.0            |
| Investment Expenses:   |                 |                 |                 |                 |
| Real Estate  | 7.5             | 7.7             | 2.6             | 2.6             |
| Other Investment Expenses  | 6.8             | 5.5             | 2.2             | 1.5             |
| Total Investment Expenses  | 14.3            | 13.2            | 4.8             | 4.1             |
| Net Investment Income  | \$ 249.6        | \$ 244.6        | \$ 92.0         | \$ 85.9         |

Gross gains and losses on sales of investments in fixed maturities for the nine and three months ended September 30, 2018 and 2017 were:

| (Dollars in Millions) | Nine Months     |                 | Three Months    |                 |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
|                       | Ended           |                 | Ended           |                 |
|                       | Sep 30,<br>2018 | Sep 30,<br>2017 | Sep 30,<br>2018 | Sep 30,<br>2017 |
| Fixed Maturities:     |                 |                 |                 |                 |
| Gains on Sales        | \$ 11.2         | \$ 7.3          | \$ 5.9          | \$ 2.4          |
| Losses on Sales       | (6.5 )          | (0.4 )          | (2.5 )          | —               |

KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

Note 4 - Property and Casualty Insurance Reserves

Property and casualty insurance reserve activity for the nine months ended September 30, 2018 and 2017 was:

|   | Nine Months<br>Ended |                 |
|---|----------------------|-----------------|
| (Dollars in Millions)   | Sep 30,<br>2018      | Sep 30,<br>2017 |
| Property and Casualty Insurance Reserves:   |                      |                 |
| Gross of Reinsurance and Indemnification at Beginning of Year   | \$1,016.8            | \$931.4         |
| Less Reinsurance and Indemnification Recoverables at Beginning of Year                                    | 53.1                 | 50.2            |
| Property and Casualty Insurance Reserves - Net of Reinsurance and Indemnification at Beginning of Year    | 963.7                | 881.2           |
| Property and Casualty Insurance Reserves Acquired, Net of Reinsurance Incurred Losses and LAE Related to: | 682.9                | —               |
| Current Year:   |                      |                 |
| Continuing Operations   | 1,412.7              | 1,072.0         |
| Prior Years:  |                      |                 |
| Continuing Operations   | (1.2                 | ) 19.7          |
| Discontinued Operations   | (0.5                 | ) —             |
| Total Incurred Losses and LAE Related to Prior Years  | (1.7                 | ) 19.7          |
| Total Incurred Losses and LAE   | 1,411.0              | 1,091.7         |
| Paid Losses and LAE Related to:   |                      |                 |
| Current Year:   |                      |                 |
| Continuing Operations   | 770.9                | 600.7           |
| Prior Years:  |                      |                 |
| Continuing Operations   | 533.1                | 443.6           |
| Discontinued Operations   | 2.2                  | 3.0             |
| Total Paid Losses and LAE Related to Prior Years  | 535.3                | 446.6           |
| Total Paid Losses and LAE   | 1,306.2              | 1,047.3         |
| Property and Casualty Insurance Reserves - Net of Reinsurance and Indemnification at End of Period        | 1,751.4              | 925.6           |
| Plus Reinsurance Recoverables at End of Period  | 67.7                 | 42.9            |
| Property and Casualty Insurance Reserves - Gross of Reinsurance and Indemnification at End of Period      | \$1,819.1            | \$968.5         |

Property and casualty insurance reserves are estimated based on historical experience patterns and current economic trends. Actual loss experience and loss trends are likely to differ from these historical experience patterns and economic conditions. Loss experience and loss trends emerge over several years from the dates of loss inception. The Company monitors such emerging loss trends on a quarterly basis. Changes in such estimates are included in the Condensed Consolidated Statements of Income in the period of change.

For the nine months ended September 30, 2018, the Company decreased its property and casualty insurance reserves by \$1.7 million to recognize favorable development of loss and LAE reserves from prior accident years. Personal lines insurance loss and LAE reserves developed adversely by \$0.1 million, and commercial lines insurance loss and LAE reserves developed favorably by \$1.8 million. Personal automobile insurance loss and LAE reserves developed favorably by \$0.5 million due primarily to the emergence of loss patterns that were more favorable than expected for both physical damage and liability insurance for the 2017 accident year, partially offset by the emergence of less favorable loss patterns than expected for both physical damage and liability insurance lines for the 2016 and prior

accident years. Homeowners insurance loss and LAE reserves developed adversely by \$3.6 million due primarily to the emergence of non-catastrophe loss patterns that were worse than expected for the 2016 and 2015 accident years, partially offset by favorable development on catastrophes primarily related to the 2017 accident year. Other personal lines loss and LAE reserves developed favorably by \$2.9 million due primarily to the emergence of more favorable loss patterns than expected for the 2016 and 2015 accident years. Commercial lines insurance

KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

Note 4 - Property and Casualty Insurance Reserves (continued)

loss and LAE reserves developed favorably due primarily to the emergence of more favorable loss patterns than expected for the 2015 and 2014 accident years.

For the nine months ended September 30, 2017, the Company increased its property and casualty insurance reserves by \$19.7 million to recognize adverse development of loss and LAE reserves from prior accident years. Personal lines insurance loss and LAE reserves developed adversely by \$17.7 million, and commercial lines insurance loss and LAE reserves developed adversely by \$2.0 million. Personal automobile insurance loss and LAE reserves developed adversely by \$18.1 million due primarily to the emergence of loss patterns that were worse than expected for both the physical damage and liability insurance for the 2016 accident year. Homeowners insurance loss and LAE reserves developed favorably by \$0.1 million due primarily to favorable development on catastrophes of \$3.2 million related to the 2016 and 2015 accident years, partially offset by the emergence of non-catastrophe loss patterns that were worse than expected for the 2016 accident year. Other personal lines loss and LAE reserves developed favorably by \$0.3 million due primarily to the emergence of more favorable loss patterns than expected for the 2015, 2014 and 2013 accident years, partially offset by the emergence of worse than expected loss patterns for the 2016 accident year. Commercial lines insurance loss and LAE reserves developed adversely due primarily to the emergence of loss patterns that were worse than expected for the 2015 accident year.

The Company cannot predict whether loss and LAE reserves will develop favorably or adversely from the amounts reported in the Company's Condensed Consolidated Financial Statements. The Company believes that any such development will not have a material effect on the Company's consolidated shareholders' equity, but could have a material effect on the Company's consolidated financial results for a given period.

Note 5 - Debt

Amended and Extended Credit Agreement and Term Loan Facility

On June 8, 2018, the Company entered into an amended and extended credit agreement and term loan facility. The amended and extended credit agreement increased the borrowing capacity of the existing unsecured credit agreement to \$300.0 million and extended the maturity date to June 8, 2023. The term loan facility includes a delayed draw feature with borrowing capacity of \$250.0 million and a maturity date two years from the borrowing date.

Furthermore, the amended and extended credit agreement provides for an accordion feature whereby the Company can increase either the revolving credit or term loan borrowing capacity by \$100.0 million. On June 29, 2018, the Company borrowed \$250.0 million on the delayed draw term loan facility to facilitate the funding of the acquisition of Infinity. The proceeds from the term loan facility, net of debt issuance costs, were \$249.4 million. There were no outstanding borrowings at September 30, 2018 and December 31, 2017 under the revolving credit agreement.

Infinity Debt

Infinity's liabilities at the acquisition date included \$275.0 million principal amount, 5.0% Senior Notes due September 19, 2022 (the "2022 Senior Notes"). The 2022 Senior Notes were recorded at fair value as of the acquisition date, \$282.1 million, with the \$7.1 million premium being amortized as a reduction to interest expense over the remaining term, resulting in an effective interest rate of 4.36%.

Long-term Debt

The Company designates debt obligations as either short-term or long-term based on maturity date at issuance, or in the case of the 2022 Senior Notes, based on the date of assumption. Total amortized cost of Long-term Debt outstanding at September 30, 2018 and December 31, 2017 was:

| (Dollars in Millions)                                | Sep 30,<br>2018 | Dec 31,<br>2017 |
|--|-----------------|-----------------|
| 4.35% Senior Notes due February 15, 2025             | \$448.4         | \$448.1         |
| 5.0% Senior Notes due September 19, 2022             | 281.7           | —               |
| 7.375% Subordinated Debentures due February 27, 2054 | 144.2           | 144.2           |

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|                                  |           |         |
|----------------------------------|-----------|---------|
| Term Loan due June 29, 2020      | 249.4     | —       |
| Total Long-term Debt Outstanding | \$1,123.7 | \$592.3 |

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KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 5 - Debt (continued)

Short-term Debt

Kemper's subsidiaries, United Insurance Company of America ("United Insurance") and Trinity Universal Insurance Company ("Trinity"), are members of the Federal Home Loan Bank ("FHLB") of Chicago and Dallas, respectively. As a requirement of membership in the FHLB, United Insurance and Trinity maintain a certain level of investment in FHLB stock. Total holdings of FHLB of Chicago stock were \$0.8 million and \$0.4 million at September 30, 2018 and December 31, 2017, respectively. Total holdings of FHLB of Dallas stock were \$3.3 million at September 30, 2018 and December 31, 2017.

In June of 2018, United Insurance received advances of \$55.0 million from the FHLB of Chicago and Trinity received advances of \$55.0 million from the FHLB of Dallas. The advances, which were repaid in full on July 13, 2018, were made to facilitate the funding of the acquisition of Infinity. There were no advances from the FHLB of Chicago or the FHLB of Dallas outstanding at September 30, 2018.

In March of 2018, United Insurance received advances of \$10.0 million from the FHLB of Chicago. The advances, which mature in one year or less, were made in connection with the start-up of the Company's collateralized investment borrowing program. In connection with the advances, United Insurance pledged U.S. Government Agency securities with a fair value of \$15.9 million at September 30, 2018. The fair value of the collateral pledged must be maintained at certain specified levels above the borrowed amount, which can vary depending on the assets pledged. If the fair value of the collateral declines below these specified levels of the amount borrowed, United Insurance would be required to pledge additional collateral or repay outstanding borrowings. Accrued Expenses and Other Liabilities in the Condensed Consolidated Balance Sheet at September 30, 2018 includes \$10.0 million related to these advances. There were no advances from the FHLB of Chicago or the FHLB of Dallas outstanding at December 31, 2017.

Interest Expense and Interest Paid

Interest Expense, including facility fees, accretion of discount, amortization of premium and amortization of issuance costs, was \$29.3 million and \$13.4 million for the nine and three months ended September 30, 2018, respectively.

Interest paid, including facility fees, was \$35.0 million and \$19.7 million for the nine and three months ended September 30, 2018, respectively. Interest Expense, including facility fees, accretion of discount and amortization of issuance costs, was \$26.9 million and \$7.8 million for the nine and three months ended September 30, 2017, respectively. Interest paid, including facility fees, was \$31.8 million and \$12.7 million for the nine and three months ended September 30, 2017, respectively.

## KEMPER CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

## Note 6 - Income from Continuing Operations Per Unrestricted Share

Prior to January 1, 2018, the Company's awards of restricted stock contained rights to receive non-forfeitable dividends and participate in the undistributed earnings with common shareholders. Prior to January 1, 2018, the Company's awards of restricted stock units and deferred stock units also contained rights to receive non-forfeitable dividend equivalents and participate in the undistributed earnings with common shareholders. Accordingly, the Company is required to apply the two-class method of computing basic and diluted earnings per share. A reconciliation of the numerator and denominator used in the calculation of Basic Income from Continuing Operations Per Unrestricted Share and Diluted Income from Continuing Operations Per Unrestricted Share for the nine and three months ended September 30, 2018 and 2017 is presented below.

|  | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| (Dollars in Millions)  |                   |              |                    |              |
| Income from Continuing Operations  | \$ 183.4          | \$ 84.0      | \$ 92.3            | \$ 47.8      |
| Less Income from Continuing Operations Attributed to Participating Awards                | 1.0               | 0.6          | 0.4                | 0.4          |
| Income from Continuing Operations Attributed to Unrestricted Shares                      | 182.4             | 83.4         | 91.9               | 47.4         |
| Dilutive Effect on Income of Equity-based Compensation Equivalent Shares                 | —                 | —            | —                  | —            |
| Diluted Income from Continuing Operations Attributed to Unrestricted Shares              | \$ 182.4          | \$ 83.4      | \$ 91.9            | \$ 47.4      |
| (Number of Shares in Thousands)  |                   |              |                    |              |
| Weighted-average Unrestricted Shares Outstanding   | 55,925.7          | 51,308.7     | 64,580.3           | 51,366.8     |
| Equity-based Compensation Equivalent Shares  | 569.8             | 171.6        | 769.1              | 199.6        |
| Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution | 56,495.5          | 51,480.3     | 65,349.5           | 51,566.4     |
| (Per Unrestricted Share in Whole Dollars)  |                   |              |                    |              |
| Basic Income from Continuing Operations Per Unrestricted Share                           | \$ 3.26           | \$ 1.63      | \$ 1.42            | \$ 0.92      |
| Diluted Income from Continuing Operations Per Unrestricted Share                         | \$ 3.23           | \$ 1.62      | \$ 1.40            | \$ 0.92      |

The number of shares of Kemper common stock that were excluded from the calculations of Equity-based Compensation Equivalent Shares and Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution for the nine and three months ended September 30, 2018 and 2017, because the effect of inclusion would be anti-dilutive, is presented below.

|  | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| (Number of Shares in Thousands)  |                   |              |                    |              |
| Equity-based Compensation Equivalent Shares  | 293.7             | 459.7        | 47.2               | 382.1        |
| Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution | 293.7             | 459.7        | 47.2               | 382.1        |



KEMPER CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

Note 7 - Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

The components of Other Comprehensive Income (Loss) Before Income Taxes for the nine and three months ended September 30, 2018 and 2017 were:

| (Dollars in Millions)  | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Other Comprehensive Income (Loss) Before Income Taxes:   |                   |              |                    |              |
| Unrealized Holding Gains (Losses) Arising During the Period Before Reclassification Adjustment | \$(224.4)         | \$110.5      | \$(43.4)           | \$19.2       |
| Reclassification Adjustment for Amounts Included in Net Income                                 | (7.7 )            | (27.7 )      | (6.5 )             | (3.6 )       |
| Unrealized Holding Gains (Losses)  | (232.1 )          | 82.8         | (49.9 )            | 15.6         |
| Foreign Currency Translation Adjustments   | 0.3               | 0.9          | —                  | 0.1          |
| Net Unrecognized Postretirement Benefit Costs  | 0.8               | (0.4 )       | 0.2                | (0.1 )       |
| Gain (Loss) on Cash Flow Hedges During the Period Before Reclassification Adjustment           | 0.8               | (7.9 )       | 0.9                | (0.3 )       |
| Reclassification Adjustment for Amounts Included in Net Income                                 | 0.3               | 1.3          | —                  | 0.2          |
| Gain (Loss) on Cash Flow Hedges  | 1.1               | (6.6 )       | 0.9                | (0.1 )       |
| Other Comprehensive Income (Loss) Before Income Taxes  | \$(229.9)         | \$76.7       | \$(48.8)           | \$15.5       |

The components of Other Comprehensive Income Tax Benefit (Expense) for the nine and three months ended September 30, 2018 and 2017 were:

| (Dollars in Millions)  | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Other Comprehensive Income Tax Benefit (Expense):  |                   |              |                    |              |
| Unrealized Holding Gains and Losses Arising During the Period Before Reclassification Adjustment | \$47.2            | \$(39.1)     | \$9.2              | \$(7.0 )     |
| Reclassification Adjustment for Amounts Included in Net Income                                   | 1.6               | 9.7          | 1.3                | 1.3          |
| Unrealized Holding Gains   | 48.8              | (29.4 )      | 10.5               | (5.7 )       |
| Foreign Currency Translation Adjustments   | (0.1 )            | (0.4 )       | —                  | (0.1 )       |
| Net Unrecognized Postretirement Benefit Costs  | (0.1 )            | 0.2          | —                  | 0.1          |
| Gain and Loss on Cash Flow Hedges During the Period Before Reclassification Adjustment           | (0.2 )            | 2.7          | (0.2 )             | —            |
| Reclassification Adjustment for Amounts Included in Net Income                                   | (0.1 )            | (0.4 )       | (0.1 )             | —            |
| Gain and Loss on Cash Flow Hedges  | (0.3 )            | 2.3          | (0.3 )             | —            |
| Other Comprehensive Income Tax Benefit (Expense)   | \$48.3            | \$(27.3)     | \$10.2             | \$(5.7 )     |

The components of AOCI at September 30, 2018 and December 31, 2017 were:

| (Dollars in Millions)   | Sep 30, 2018 | Dec 31, 2017 |
|---|--------------|--------------|
| Net Unrealized Gains on Investments, Net of Income Taxes:                       |              |              |
| Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings | \$—          | \$0.2        |
| Other Net Unrealized Gains on Investments                                       | 122.6        | 269.5        |
| Foreign Currency Translation Adjustments, Net of Income Taxes                   | —            | 0.2          |
| Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes              | (88.5 )      | (72.2 )      |

|   |        |         |
|---|--------|---------|
| Loss on Cash Flow Hedges, Net of Income Taxes | (3.2 ) | (3.3 )  |
| Accumulated Other Comprehensive Income        | \$30.9 | \$194.4 |

KEMPER CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

Note 7 - Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (continued)  
Components of AOCI were reclassified to the following lines of the Condensed Consolidated Statements of Income for the nine and three months ended September 30, 2018 and 2017:

| (Dollars in Millions)   | Nine Months Ended |              | Three Months Ended |              |
|---|-------------------|--------------|--------------------|--------------|
|   | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Reclassification of AOCI from Net Unrealized Gains on Investments to:       |                   |              |                    |              |
| Net Realized Gains on Sales of Investments                                  | \$10.0            | \$38.2       | \$8.3              | \$6.5        |
| Net Impairment Losses Recognized in Earnings                                | (2.3 )            | (10.5 )      | (1.8 )             | (2.9 )       |
| Total Before Income Taxes   | 7.7               | 27.7         | 6.5                | 3.6          |
| Income Tax Expense  | (1.6 )            | (9.7 )       | (1.3 )             | (1.3 )       |
| Reclassification from AOCI, Net of Income Taxes                             | 6.1               | 18.0         | 5.2                | 2.3          |
| Reclassification of AOCI from Unrecognized Postretirement Benefit Costs to: |                   |              |                    |              |
| Interest and Other Expenses   | (0.8 )            | 0.4          | (0.2 )             | 0.1          |
| Income Tax Benefit  | 0.1               | (0.2 )       | —                  | (0.1 )       |
| Reclassification from AOCI, Net of Income Taxes                             | (0.7 )            | 0.2          | (0.2 )             | —            |
| Reclassification of AOCI from Loss on Cash Flow Hedges to:                  |                   |              |                    |              |
| Interest and Other Expenses   | (0.3 )            | (1.3 )       | (0.2 )             | (0.2 )       |
| Income Tax Benefit  | 0.1               | 0.4          | 0.1                | —            |
| Reclassification from AOCI, Net of Income Taxes                             | (0.2 )            | (0.9 )       | (0.1 )             | (0.2 )       |
| Total Reclassification from AOCI to Net Income                              | \$5.2             | \$17.3       | \$4.9              | \$2.1        |

Note 8 - Changes in Shareholders' Equity

Changes in Shareholders' Equity for the nine months ended September 30, 2018 were:

| (Dollars in Millions, Except Per Share Amounts)                            | Total Shareholders' Equity |
|--|----------------------------|
| Shareholders' Equity at Beginning of Year                                  | \$2,115.6                  |
| Net Income   | 183.6                      |
| Other Comprehensive Income (Loss)  | (181.6 )                   |
| Total Comprehensive Income   | 2.0                        |
| Cash Dividends and Dividend Equivalents to Shareholders (\$0.24 per share) | (40.7 )                    |
| Common Stock Issued  | 978.5                      |
| Equity-based Compensation Cost   | 13.5                       |
| Equity-based Awards, Net of Shares Exchanged                               | (5.1 )                     |
| Shareholders' Equity at End of Period                                      | \$3,063.8                  |

Effective January 1, 2018, the Company adopted ASU 2016-01. The Company applied the modified retrospective transition method, except for the provisions regarding equity investments without readily determinable fair values, which were applied on a prospective basis, with no impact on the Company's Total Shareholders' Equity. Accordingly, the Company recognized an increase to Retained Earnings and a corresponding reduction to Accumulated Other Comprehensive Income ("AOCI") as of January 1, 2018 of \$17.7 million. See Note 1, Basis of Presentation, to the Condensed Consolidated Financial Statements for additional information.

Effective January 1, 2018, the Company early adopted ASU 2018-02, Reclassification of Certain Income Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 provides companies the option to reclassify tax effects stranded in AOCI, as a result of the 2017 Tax Cuts and Jobs Act (the "Tax Act"), to retained earnings. The

Company elected to reclassify tax effects stranded in AOCI and recognized a decrease to Retained Earnings and a corresponding increase to AOCI of

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KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

Note 8 - Changes in Shareholders' Equity (continued)

\$35.9 million as of January 1, 2018. The adoption of ASU 2018-02 had no impact on Total Shareholders' Equity. See Note 1, Basis of Presentation, to the Condensed Consolidated Financial Statements for additional information.

Note 9 - Income Taxes

On December 22, 2017, Public Law 115-97, more commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), was enacted and included numerous changes to existing federal income tax law, including a permanent reduction in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Pursuant to Staff Accounting Bulletin No. 118 ("SAB 118"), the Company recorded certain provisional amounts for estimated income tax effects of the Tax Act on deferred income taxes.

In the third quarter of 2018, the Company finalized certain effects of the Tax Act on deferred income taxes, which were previously recorded as provisional amounts under SAB 118, based on additional information received from third parties and the completion of additional actuarial computations which impacted tax elections made for the 2017 and earlier tax years. As a result, the Company recorded a tax benefit of \$26.0 million for the nine and three months ended September 30, 2018. The tax benefit recognized includes the estimated benefit of elections to reset the interest rates used to discount and compute the tax-basis of reserves on certain post-1987 life insurance contracts reported in the Company's 2014 through 2017 income tax returns. Final determination of the effects of the Tax Act on deferred income taxes, aside from the items noted above, continues to require additional information and detailed computations, the Company expects to complete its determination of the effect of the Tax Act on its deferred income tax assets and liabilities during the fourth quarter of 2018.

The statute of limitations related to Kemper and its eligible subsidiaries' consolidated Federal income tax returns is closed for all tax years up to and including 2013. The expiration of the statute of limitations related to the various state income tax returns that Kemper and its subsidiaries file varies by state.

Liabilities for Unrecognized Tax Benefits at September 30, 2018 and December 31, 2017 include \$3.8 million and \$7.6 million, respectively, for tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred income tax accounting, other than for interest and penalties, the disallowance of the shorter deductibility period would not affect the effective income tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

Liabilities for Unrecognized Tax Benefits included accrued interest of \$0.7 million and \$0.5 million at September 30, 2018 and December 31, 2017, respectively.

Income taxes paid, net of refunds received, were \$10.2 million for the nine months ended September 30, 2018. Income taxes paid, net of refunds received, were \$5.5 million for the nine months ended September 30, 2017.

Note 10 - Pension Benefits and Postretirement Benefits Other Than Pensions

The Company sponsors a qualified defined benefit pension plan (the "Pension Plan") that covers approximately 9,000 participants and beneficiaries, of which 1,600 are active employees. The Pension Plan is closed to employees newly-hired after January 1, 2006. On May 12, 2016, the Company amended the Pension Plan to freeze benefit accruals, effective June 30, 2016, for substantially all of the participants under the plan. The components of Pension Benefit for the Pension Plan for the nine and three months ended September 30, 2018 and 2017 were:

|   | Nine Months  |              | Three Months |              |
|---|--------------|--------------|--------------|--------------|
|   | Ended        | Ended        | Ended        | Ended        |
| (Dollars in Millions)                         | Sep 30, 2018 | Sep 30, 2017 | Sep 30, 2018 | Sep 30, 2017 |
| Service Cost                                  | \$—          | \$—          | \$—          | \$—          |
| Interest Cost on Projected Benefit Obligation | 15.2         | 15.4         | 5.0          | 5.1          |
| Expected Return on Plan Assets                | (21.7)       | (23.2)       | (7.3)        | (7.7)        |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Amortization of Accumulated Net Unrecognized Pension Costs | 3.2     | 2.0     | 1.1     | 0.7     |
| Total Pension Benefit Recognized                           | \$(3.3) | \$(5.8) | \$(1.2) | \$(1.9) |

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## KEMPER CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

## Note 10 - Pension Benefits and Postretirement Benefits Other Than Pensions (continued)

The Company sponsors two other postretirement benefit (“OPEB”) plans that provide medical, dental and/or life insurance benefits to approximately 600 retired and 600 active employees (the “OPEB Plan”). The components of OPEB Benefit for the OPEB Plan for the nine and three months ended September 30, 2018 and 2017 were:

| (Dollars in Millions)  | Nine Months  |              | Three Months |              |
|--|--------------|--------------|--------------|--------------|
|  | Ended        |              | Ended        |              |
|  | Sep 30, 2018 | Sep 30, 2017 | Sep 30, 2018 | Sep 30, 2017 |
| Service Cost   | \$0.1        | \$ 0.1       | —            | —            |
| Interest Cost on Accumulated Postretirement Benefit Obligation | 0.3          | 0.3          | 0.1          | 0.1          |
| Amortization of Prior Service Credit                           | (1.4 )       | (1.0 )       | (0.5 )       | (0.3 )       |
| Amortization of Accumulated Net Unrecognized Gain              | (1.0 )       | (1.4 )       | (0.3 )       | (0.5 )       |
| Total OPEB Benefit Recognized                                  | \$(2.0)      | \$(2.0)      | \$(0.7)      | \$(0.7)      |

The non-service cost component of the Pension Plan and OPEB Plan is presented within the Interest and Other Expenses line item in the Condensed Consolidated Statement of Income.

## Note 11 - Business Segments

The Company is engaged, through its subsidiaries, in the property and casualty insurance and life and health insurance businesses. The Company conducts its operations through two operating segments: Property & Casualty Insurance and Life & Health Insurance.

The Property & Casualty Insurance segment’s principal products are personal automobile insurance, both preferred and nonstandard, homeowners insurance, other personal insurance and commercial automobile insurance. These products are distributed primarily through independent agents and brokers. The Life & Health Insurance segment’s principal products are individual life, accident, supplemental health and property insurance. These products are distributed by career agents employed by the Company and independent agents and brokers.

Earned Premiums by product line for the nine and three months ended September 30, 2018 and 2017 were:

| (Dollars in Millions)                          | Nine Months  |              | Three Months |              |
|--|--------------|--------------|--------------|--------------|
|  | Ended        |              | Ended        |              |
|  | Sep 30, 2018 | Sep 30, 2017 | Sep 30, 2018 | Sep 30, 2017 |
| Personal Automobile                            | \$1,554.0    | \$1,012.8    | \$766.7      | \$353.0      |
| Homeowners                                     | 186.5        | 199.6        | 62.5         | 66.7         |
| Other Personal Property and Casualty Insurance | 83.4         | 87.0         | 27.7         | 28.9         |
| Commercial Automobile                          | 80.6         | 38.5         | 55.9         | 13.1         |
| Life   | 284.3        | 285.6        | 95.2         | 94.5         |
| Accident and Health                            | 132.0        | 120.6        | 44.9         | 42.0         |
| Total Earned Premiums                          | \$2,320.8    | \$1,744.1    | \$1,052.9    | \$598.2      |

KEMPER CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

Note 11 - Business Segments (continued)

Segment Revenues, including a reconciliation to Total Revenues, for the nine and three months ended September 30, 2018 and 2017 were:

| (Dollars in Millions)                                 | Nine Months Ended |              | Three Months Ended |              |
|---|-------------------|--------------|--------------------|--------------|
|   | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Revenues:   |                   |              |                    |              |
| Property & Casualty Insurance:                        |                   |              |                    |              |
| Earned Premiums                                       | \$1,851.5         | \$1,283.1    | \$895.2            | \$443.5      |
| Net Investment Income                                 | 79.4              | 72.5         | 34.0               | 27.8         |
| Other Income  | 1.6               | 0.9          | 0.9                | 0.4          |
| Total Property & Casualty Insurance                   | 1,932.5           | 1,356.5      | 930.1              | 471.7        |
| Life & Health Insurance:                              |                   |              |                    |              |
| Earned Premiums                                       | 469.3             | 461.0        | 157.7              | 154.7        |
| Net Investment Income                                 | 157.9             | 163.8        | 50.5               | 55.9         |
| Other Income  | 2.9               | 1.9          | 1.2                | 0.7          |
| Total Life & Health Insurance                         | 630.1             | 626.7        | 209.4              | 211.3        |
| Total Segment Revenues                                | 2,562.6           | 1,983.2      | 1,139.5            | 683.0        |
| Income from Change in Fair Value of Equity Securities | 12.1              | —            | 11.0               | —            |
| Net Realized Gains on Sales of Investments            | 10.0              | 45.0         | 3.6                | 8.1          |
| Net Impairment Losses Recognized in Earnings          | (2.3 )            | (10.5 )      | (1.8 )             | (2.9 )       |
| Other   | 48.0              | 8.4          | 43.2               | 2.1          |
| Total Revenues  | \$2,630.4         | \$2,026.1    | \$1,195.5          | \$690.3      |

Segment Operating Profit, including a reconciliation to Income from Continuing Operations before Income Taxes, for the nine and three months ended September 30, 2018 and 2017 was:

| (Dollars in Millions)  | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Segment Operating Profit (Loss):                             |                   |              |                    |              |
| Property & Casualty Insurance                                | \$96.9            | \$(2.2 )     | \$34.2             | \$30.8       |
| Life & Health Insurance                                      | 96.3              | 99.8         | 33.0               | 36.0         |
| Total Segment Operating Profit (Loss)                        | 193.2             | 97.6         | 67.2               | 66.8         |
| Corporate and Other Operating Profit (Loss) From:            |                   |              |                    |              |
| Partial Satisfaction of Judgment                             | 35.7              | —            | 35.7               | —            |
| Other  | (17.7 )           | (15.2 )      | (7.0 )             | (3.7 )       |
| Total Corporate and Other Operating Profit (Loss)            | 18.0              | (15.2 )      | 28.7               | (3.7 )       |
| Income from Change in Fair Value of Equity Securities        | 12.1              | —            | 11.0               | —            |
| Net Realized Gains on Sales of Investments                   | 10.0              | 45.0         | 3.6                | 8.1          |
| Net Impairment Losses Recognized in Earnings                 | (2.3 )            | (10.5 )      | (1.8 )             | (2.9 )       |
| Acquisition Related Transaction, Integration and Other Costs | (38.0 )           | —            | (28.2 )            | —            |
| Income from Continuing Operations before Income Taxes        | \$193.0           | \$116.9      | \$80.5             | \$68.3       |





KEMPER CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

Note 11 - Business Segments (continued)

Segment Net Operating Income, including a reconciliation to Income from Continuing Operations, for the nine and three months ended September 30, 2018 and 2017 was:

|  | Nine Months |         | Three Months |         |
|--|-------------|---------|--------------|---------|
|  | Ended       | Ended   | Ended        | Ended   |
| (Dollars in Millions and Net of Income Taxes)                | Sep 30,     | Sep 30, | Sep 30,      | Sep 30, |
|  | 2018        | 2017    | 2018         | 2017    |
| Segment Net Operating Income:                                |             |         |              |         |
| Property & Casualty Insurance                                | \$79.4      | \$5.7   | \$28.2       | \$22.9  |
| Life & Health Insurance                                      | 76.9        | 65.5    | 26.7         | 23.5    |
| Total Segment Net Operating Income                           | 156.3       | 71.2    | 54.9         | 46.4    |
| Corporate and Other Net Operating Income (Loss) From:        |             |         |              |         |
| Effects of Tax Reform  | 26.0        | —       | 26.0         | —       |
| Partial Satisfaction of Judgment                             | 28.2        | —       | 28.2         | —       |
| Other  | (12.0 )     | (9.7 )  | (4.6 )       | (2.0 )  |
| Total Corporate and Other Net Operating Income (Loss)        | 42.2        | (9.7 )  | 49.6         | (2.0 )  |
| Net Income (Loss) From:                                      |             |         |              |         |
| Income from Change in Fair Value of Equity Securities        | 9.6         | —       | 8.7          | —       |
| Net Realized Gains on Sales of Investments                   | 7.9         | 29.3    | 2.8          | 5.3     |
| Net Impairment Losses Recognized in Earnings                 | (1.8 )      | (6.8 )  | (1.4 )       | (1.9 )  |
| Acquisition Related Transaction, Integration and Other Costs | (30.8 )     | —       | (22.3 )      | —       |
| Income from Continuing Operations                            | \$183.4     | \$84.0  | \$92.3       | \$47.8  |

## KEMPER CORPORATION AND SUBSIDIARIES

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

## Note 12 - Fair Value Measurements

The Company classifies its investments in Fixed Maturities as available for sale and reports these investments at fair value. The Company reports equity investments with readily determinable fair values as Equity Securities at Fair Value. Certain investments that are measured at fair value using the net asset value practical expedient are not required to be classified using the fair value hierarchy, but are presented in the following two tables to permit reconciliation of the fair value hierarchy to the amounts presented in the Condensed Consolidated Balance Sheet. The valuation of assets measured at fair value in the Company's Condensed Consolidated Balance Sheet at September 30, 2018 is summarized below.

| (Dollars in Millions)                                   | Fair Value Measurements                                    |   |   |                             | Total Fair Value |
|---|--|---|---|-----------------------------|------------------|
|   | Quoted in Active Markets for Identifiable Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Measured at Net Asset Value |                  |
| Fixed Maturities:                                       |  |   |   |                             |                  |
| U.S. Government and Government Agencies and Authorities | \$ 163.6   | \$ 695.3                                | \$ —                                      | \$ —                        | \$ 858.9         |
| States and Political Subdivisions                       | —  | 1,531.7                                 | 1.8                                       | —                           | 1,533.5          |
| Foreign Governments                                     | —  | 5.7                                     | —   | —                           | 5.7              |
| Corporate Securities:                                   |  |   |   |                             |                  |
| Bonds and Notes   | —  | 2,841.2                                 | 381.3                                     | —                           | 3,222.5          |
| Collateralized Loan Obligations                         | —  | 5.4                                     | 466.7                                     | —                           | 472.1            |
| Other Mortgage- and Asset-backed                        | —  | 5.7                                     | 10.2                                      | —                           | 15.9             |
| Total Investments in Fixed Maturities                   | 163.6  | 5,085.0                                 | 860.0                                     | —                           | 6,108.6          |
| Equity Securities at Fair Value:                        |  |   |   |                             |                  |
| Preferred Stocks:                                       |  |   |   |                             |                  |
| Finance, Insurance and Real Estate                      | —  | 39.8                                    | —   | —                           | 39.8             |
| Other Industries  | —  | 11.9                                    | —   | —                           | 11.9             |
| Common Stocks:  |  |   |   |                             |                  |
| Finance, Insurance and Real Estate                      | 11.7   | —                                       | —   | —                           | 11.7             |
| Other Industries  | 0.4  | 0.7                                     | —   | —                           | 1.1              |
| Other Equity Interests:                                 |  |   |   |                             |                  |
| Exchange Traded Funds                                   | 549.1  | —                                       | —   | —                           | 549.1            |
| Limited Liability Companies and Limited Partnerships    | —  | —                                       | —   | 202.2                       | 202.2            |
| Total Investments in Equity Securities at Fair Value    | 561.2  | 52.4                                    | —   | 202.2                       | 815.8            |
| Total   | \$ 724.8   | \$ 5,137.4                              | \$ 860.0                                  | \$ 202.2                    | \$ 6,924.4       |

At September 30, 2018, the Company had unfunded commitments to invest an additional \$149.3 million in certain limited liability investment companies and limited partnerships that will be included in Other Equity Interests if funded.

KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

Note 12 - Fair Value Measurements (continued)

The valuation of assets measured at fair value in the Company's Consolidated Balance Sheet at December 31, 2017 is summarized below.

| (Dollars in Millions)   | Fair Value Measurements                                    |   |   |                             | Total<br>Fair Value |
|---|--|---|---|-----------------------------|---------------------|
|   | Quoted in Active Markets for Identifiable Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Measured at Net Asset Value |                     |
| Fixed Maturities:   |  |   |   |                             |                     |
| U.S. Government and Government Agencies and Authorities States and Political Subdivisions | \$ 115.8   | \$ 440.3                                | \$ —                                      | \$ —                        | \$ 556.1            |
| Foreign Governments   | —  | 1,701.8                                 | —   | —                           | 1,701.8             |
| Corporate Securities:   |  |   |   |                             |                     |
| Bonds and Notes   | —  | 3.2                                     | —   | —                           | 3.2                 |
| Redeemable Preferred Stocks   | —  | 2,579.1                                 | 401.5                                     | —                           | 2,980.6             |
| Collateralized Loan Obligations   | —  | —                                       | 0.1                                       | —                           | 0.1                 |
| Other Mortgage- and Asset-backed  | —  | 46.6                                    | 93.2                                      | —                           | 139.8               |
| Total Investments in Fixed Maturities   | 115.8  | 4,772.1                                 | 494.8                                     | —                           | 5,382.7             |
| Equity Securities at Fair Value:  |  |   |   |                             |                     |
| Preferred Stocks:   |  |   |   |                             |                     |
| Finance, Insurance and Real Estate  | —  | 55.7                                    | —   | —                           | 55.7                |
| Other Industries  | —  | 12.3                                    | 10.8                                      | —                           | 23.1                |
| Common Stocks:  |  |   |   |                             |                     |
| Finance, Insurance and Real Estate  | 7.0  | 0.1                                     | —   | —                           | 7.1                 |
| Other Industries  | 0.7  | 0.4                                     | 16.6                                      | —                           | 17.7                |
| Other Equity Interests:   |  |   |   |                             |                     |
| Exchange Traded Funds   | 219.5  | —                                       | —   | —                           | 219.5               |
| Limited Liability Companies and Limited Partnerships                                      | —  | —                                       | 34.4                                      | 168.5                       | 202.9               |
| Total Investments in Equity Securities at Fair Value                                      | 227.2  | 68.5                                    | 61.8                                      | 168.5                       | 526.0               |
| Fair Value Option Investments:  |  |   |   |                             |                     |
| Limited Liability Companies and Limited Partnership Hedge Funds                           | —  | —                                       | —   | 77.5                        | 77.5                |
| Other Investments:  |  |   |   |                             |                     |
| Trading Securities  | 6.7  | —                                       | —   | —                           | 6.7                 |
| Other Liabilities:  |  |   |   |                             |                     |
| Derivative Instrument Classified as Cash Flow Hedge                                       | —  | (0.8 )                                  | —   | —                           | (0.8 )              |
| Total   | \$349.7  | \$4,839.8                               | \$ 556.6                                  | \$ 246.0                    | \$5,992.1           |

KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

Note 12 - Fair Value Measurements (continued)

The Company's investments in Fixed Maturities that are classified as Level 1 in the two preceding tables primarily consist of U.S. Treasury Bonds and Notes. The Company's investments in Equity Securities at Fair Value that are classified as Level 1 in the two preceding tables consist of either investments in publicly-traded common stocks or exchange traded funds. The Company's investments in Fixed Maturities that are classified as Level 2 in the two preceding tables primarily consist of investments in corporate bonds, obligations of states and political subdivisions, and bonds and mortgage-backed securities of U.S. government agencies. The Company's investments in Equity Securities at Fair Value that are classified as Level 2 in the two preceding tables primarily consist of investments in preferred stocks. The Company uses a leading, nationally recognized provider of market data and analytics to price the vast majority of the Company's Level 2 measurements. The provider utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Because many fixed maturity securities do not trade on a daily basis, the provider's evaluated pricing applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. In addition, the provider uses model processes to develop prepayment and interest rate scenarios. The pricing provider's models and processes also take into account market convention. For each asset class, teams of its evaluators gather information from market sources and integrate relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models. The Company generally validates the measurements obtained from its primary pricing provider by comparing them with measurements obtained from one additional pricing provider that provides either prices from recent market transactions, quotes in inactive markets or evaluations based on its own proprietary models.

The Company investigates significant differences related to the values provided. On completion of its investigation, management exercises judgment to determine the price selected and whether adjustments, if any, to the price obtained from the Company's primary pricing provider would warrant classification of the price as Level 3. In instances where a measurement cannot be obtained from either pricing provider, the Company generally will evaluate bid prices from one or more binding quotes obtained from market makers to value investments in inactive markets and classified by the Company as Level 2. The Company generally classifies securities when it receives non-binding quotes or indications as Level 3 securities unless the Company can validate the quote or indication against recent transactions in the market.

The Company's Investments in Fixed Maturities that are classified as Level 3 in the two preceding tables primarily consist of privately placed securities not rated by a Nationally Recognized Statistical Rating Organization and are priced primarily using a market yield approach. A market yield approach uses a risk-free rate plus a credit spread depending on the underlying credit profile of the security. For floating rate securities, the risk-free rate used in the market yield is the contractual floating rate of the security. For each individual security, the Company or the Company's third party appraiser gathers information from market sources, relevant credit information, perceived market movements and sector news and determines an appropriate market yield for each security. The market yield selected is then used to discount the estimated future cash flows of the security to determine the fair value. The Company separately evaluates market yields based upon asset class to assess the reasonableness of the recorded fair value. For non-investment-grade Investments in Fixed Maturities that are classified as Level 3, the two primary asset classes are senior debt and junior debt. Senior debt includes those securities that receive first priority in a liquidation and junior debt includes any fixed maturity security with other than first priority in a liquidation.

The table below presents quantitative information about the significant unobservable inputs utilized by the Company in determining fair values for fixed maturity investments in corporate securities classified as Level 3 at September 30, 2018.

| (Dollars in Millions) | Unobservable<br>Input | Total<br>Fair Value | Range of<br>Unobservable | Weighted-average<br>Yield |
|-----------------------|-----------------------|---------------------|--------------------------|---------------------------|
|-----------------------|-----------------------|---------------------|--------------------------|---------------------------|

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|  |              |          | Inputs |         |      |   |
|--|--------------|----------|--------|---------|------|---|
| Investment-grade   | Market Yield | \$ 136.3 | 3.0 %  | -10.5 % | 5.0  | % |
| Non-investment-grade:  |              |          |        |         |      |   |
| Senior Debt  | Market Yield | 151.6    | 3.7    | -23.3   | 9.7  |   |
| Junior Debt  | Market Yield | 90.9     | 9.5    | -27.8   | 13.0 |   |
| Collateralized Loan Obligations                                  | Market Yield | 466.7    | 3.5    | -10.4   | 5.1  |   |
| Other  | Various      | 14.5     |        |         |      |   |
| Total Level 3 Fixed Maturity Investments in Corporate Securities |              | \$ 860.0 |        |         |      |   |

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KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

Note 12 - Fair Value Measurements (continued)

The table below presents quantitative information about the significant unobservable inputs utilized by the Company in determining fair values for fixed maturity investments in corporate securities classified as Level 3 at December 31, 2017.

| (Dollars in Millions)  | Unobservable Input | Total Fair Value | Range of Unobservable Inputs | Weighted-average Yield |
|--|--------------------|------------------|------------------------------|------------------------|
| Investment-grade   | Market Yield       | \$ 96.2          | 3.0 % - 6.7 %                | 3.8 %                  |
| Non-investment-grade:  |                    |                  |                              |                        |
| Senior Debt  | Market Yield       | 138.1            | 4.5 - 15.7                   | 10.0                   |
| Junior Debt  | Market Yield       | 154.1            | 9.6 - 24.3                   | 12.9                   |
| Collateralized Loan Obligations                                  | Market Yield       | 93.2             | 4.3 - 10.6                   | 7.8                    |
| Other Debt   | Various            | 13.2             |                              |                        |
| Total Level 3 Fixed Maturity Investments in Corporate Securities |                    | \$ 494.8         |                              |                        |

For an investment in a fixed maturity security, an increase in the yield used to determine the fair value of the security will decrease the fair value of the security. A decrease in the yield used to determine fair value will increase the fair value of the security, but the fair value increase is generally limited to par, unless callable at a premium, if the security is currently callable.

Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the nine months ended September 30, 2018 is presented below.

| (Dollars in Millions)                                  | Fixed Maturities          |                                    |                             |                                 | Equity Securities               |                             |                        |          |
|--|---------------------------|------------------------------------|-----------------------------|---------------------------------|---------------------------------|-----------------------------|------------------------|----------|
|  | Corporate Bonds and Notes | States and Political Sub-divisions | Redeemable Preferred Stocks | Collateralized Loan Obligations | Other Mortgage and Asset-backed | Preferred and Common Stocks | Other Equity Interests | Total    |
| Balance at Beginning of Period                         | \$ 401.5                  | \$ —                               | \$ 0.1                      | \$ 93.2                         | \$ —                            | \$ 27.4                     | \$ 34.4                | \$ 556.6 |
| Total Gains (Losses):                                  |                           |                                    |                             |                                 |                                 |                             |                        |          |
| Included in Condensed Consolidated Statement of Income | 2.3                       | —                                  | (0.1 )                      | 2.4                             | —                               | —                           | —                      | 4.6      |
| Included in Other Comprehensive Income (Loss)          | 0.1                       | —                                  | —                           | (3.3 )                          | 0.2                             | —                           | —                      | (3.0 )   |
| Purchases  | 148.6                     | 1.8                                | —                           | 391.8                           | 10.0                            | —                           | —                      | 552.2    |
| Settlements  | (77.1 )                   | —                                  | —                           | (51.3 )                         | —                               | —                           | —                      | (128.4 ) |
| Sales  | (88.7 )                   | —                                  | —                           | —                               | —                               | —                           | —                      | (88.7 )  |
| Transfers into Level 3                                 | 2.3                       | —                                  | —                           | 33.9                            | —                               | —                           | —                      | 36.2     |
| Transfers out of Level 3                               | (7.7 )                    | —                                  | —                           | —                               | —                               | (27.4 )                     | (34.4 )                | (69.5 )  |
| Balance at End of Period                               | \$ 381.3                  | \$ 1.8                             | \$ —                        | \$ 466.7                        | \$ 10.2                         | \$ —                        | \$ —                   | \$ 860.0 |

KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

Note 12 - Fair Value Measurements (continued)

Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the three months ended September 30, 2018 is presented below.

| (Dollars in Millions)                                  | Fixed Maturities                   |   |                                       |  | Total   |
|--|------------------------------------|---|---------------------------------------|--|---------|
|  | Corporate<br>Bonds<br>and<br>Notes | States<br>and<br>Political<br>Sub-<br>divisions | Collateralized<br>Loan<br>Obligations | Other<br>Mortgage-<br>and Asset-<br>backed |         |
| Balance at Beginning of Period                         | \$385.5                            | \$ —  | \$ 95.9                               | \$ —                                       | \$481.4 |
| Total Gains (Losses):                                  |                                    |   |                                       |  |         |
| Included in Condensed Consolidated Statement of Income | 0.9                                | —   | 0.5                                   | —  | 1.4     |
| Included in Other Comprehensive Income (Loss)          | —                                  | —   | (1.3                                  | ) 0.2                                      | (1.1 )  |
| Purchases  | 54.9                               | 1.8   | 354.2                                 | 10.0                                       | 420.9   |
| Settlements  | (11.5 )                            | —   | (16.5 )                               | —  | (28.0 ) |
| Sales  | (47.8 )                            | —   | —                                     | —  | (47.8 ) |
| Transfers into Level 3                                 | 2.0                                | —   | 33.9                                  | —  | 35.9    |
| Transfers out of Level 3                               | (2.7 )                             | —   | —                                     | —  | (2.7 )  |
| Balance at End of Period                               | \$381.3                            | \$ 1.8  | \$ 466.7                              | \$ 10.2                                    | \$860.0 |

The Company's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers between levels 1 and 2 for the nine and three months ended September 30, 2018. Transfers out of Level 3 were \$69.5 million for the nine months ended September 30, 2018, of which \$61.8 million was transferred into Equity Securities at Modified Cost due to the adoption of ASU 2016-01 and \$7.7 million was transferred into Level 2 due to changes in the availability of market observable inputs. There were \$2.7 million of transfers out of Level 3 into Level 2 for the three months ended September 30, 2018 due to changes in the availability of market observable inputs.



KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

Note 12 - Fair Value Measurements (continued)

Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the nine months ended September 30, 2017 is presented below.

| (Dollars in Millions)                                  | Fixed Maturities          |                                    |                             |                                 | Equity Securities           |                        |         |
|--|---------------------------|------------------------------------|-----------------------------|---------------------------------|-----------------------------|------------------------|---------|
|  | Corporate Bonds and Notes | States and Political Sub-divisions | Redeemable Preferred Stocks | Collateralized Loan Obligations | Preferred and Common Stocks | Other Equity Interests | Total   |
| Balance at Beginning of Period                         | \$403.2                   | \$ 3.8                             | \$ 0.6                      | \$ 103.5                        | \$29.7                      | \$ 40.9                | \$581.7 |
| Total Gains (Losses):                                  |                           |                                    |                             |                                 |                             |                        |         |
| Included in Condensed Consolidated Statement of Income | (4.7 )                    | (1.2 )                             | 0.1                         | 1.4                             | 1.7                         | 3.7                    | 1.0     |
| Included in Other Comprehensive Income (Loss)          | 4.6                       | —                                  | (0.1 )                      | 1.7                             | 0.9                         | (6.3 )                 | 0.8     |
| Purchases  | 120.4                     | —                                  | —                           | 22.7                            | 3.2                         | 2.9                    | 149.2   |
| Settlements  | (75.5 )                   | (2.6 )                             | (0.5 )                      | (18.0 )                         | —                           | —                      | (96.6 ) |
| Sales  | (32.0 )                   | —                                  | —                           | (11.0 )                         | (6.9 )                      | (7.1 )                 | (57.0 ) |
| Transfers into Level 3                                 | —                         | 1.4                                | —                           | 5.0                             | —                           | —                      | 6.4     |
| Transfers out of Level 3                               | (28.6 )                   | —                                  | —                           | (11.8 )                         | (3.5 )                      | —                      | (43.9 ) |
| Balance at End of Period                               | \$387.4                   | \$ 1.4                             | \$ 0.1                      | \$ 93.5                         | \$25.1                      | \$ 34.1                | \$541.6 |

Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the three months ended September 30, 2017 is presented below.

| (Dollars in Millions)                                  | Fixed Maturities          |                                    |                             |                                 | Equity Securities           |                        |         |
|--|---------------------------|------------------------------------|-----------------------------|---------------------------------|-----------------------------|------------------------|---------|
|  | Corporate Bonds and Notes | States and Political Sub-divisions | Redeemable Preferred Stocks | Collateralized Loan Obligations | Preferred and Common Stocks | Other Equity Interests | Total   |
| Balance at Beginning of Period                         | \$396.1                   | \$ —                               | \$ 0.1                      | \$ 95.4                         | \$22.8                      | \$ 32.2                | \$546.6 |
| Total Gains (Losses):                                  |                           |                                    |                             |                                 |                             |                        |         |
| Included in Condensed Consolidated Statement of Income | (0.8 )                    | —                                  | —                           | 0.5                             | 0.4                         | 0.3                    | 0.4     |
| Included in Other Comprehensive Income (Loss)          | 1.8                       | —                                  | —                           | —                               | 2.4                         | 0.4                    | 4.6     |
| Purchases  | 40.4                      | —                                  | —                           | 6.3                             | —                           | 1.5                    | 48.2    |
| Settlements  | (31.2 )                   | —                                  | —                           | (5.5 )                          | —                           | —                      | (36.7 ) |
| Sales  | (3.7 )                    | —                                  | —                           | (4.3 )                          | (0.5 )                      | (0.3 )                 | (8.8 )  |
| Transfers into Level 3                                 | —                         | 1.4                                | —                           | 5.0                             | —                           | —                      | 6.4     |
| Transfers out of Level 3                               | (15.2 )                   | —                                  | —                           | (3.9 )                          | —                           | —                      | (19.1 ) |
| Balance at End of Period                               | \$387.4                   | \$ 1.4                             | \$ 0.1                      | \$ 93.5                         | \$25.1                      | \$ 34.1                | \$541.6 |

KEMPER CORPORATION AND SUBSIDIARIES  
 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
 (Unaudited)

Note 12 - Fair Value Measurements (continued)

The Company's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers between levels 1 and 2 for the nine and three months ended September 30, 2017. Transfers out of Level 3 were \$43.9 million for the nine months ended September 30, 2017, of which \$3.5 million was transferred into Level 1 due to an issuer's initial public offering of the security and \$40.4 million was transferred into Level 2 due to changes in the availability of market observable inputs. Transfers out of Level 3 for the three months ended September 30, 2017, were due to changes in the availability of market observable inputs.

Presented below are the carrying values and fair value estimates of financial instruments not carried at fair value.

| (Dollars in Millions)                                     | September 30,<br>2018 |               | December 31,<br>2017 |            |
|---|-----------------------|---------------|----------------------|------------|
|   | Carrying<br>Value     | Fair<br>Value | Carrying<br>Value    | Fair Value |
| Financial Assets:   |                       |               |                      |            |
| Loans to Policyholders                                    | \$298.0               | \$519.6       | \$298.6              | \$ 560.3   |
| Short-term Investments                                    | 688.5                 | 688.5         | 235.5                | 235.5      |
| Financial Liabilities:                                    |                       |               |                      |            |
| Debt  | \$1,123.7             | \$1,127.7     | \$592.3              | \$ 614.6   |
| Collateralized Borrowings (Included in Other Liabilities) | 10.0                  | 10.0          | —                    | —          |

The fair value measurement for loans to policyholders are categorized as Level 3 within the fair value hierarchy. The fair value measurement of Short-term Investments is estimated using inputs that are considered either Level 1 or Level 2 measurements. The fair value of Debt is estimated using quoted prices for similar liabilities in markets that are not active. The inputs used in the valuation are considered Level 2 measurements. Collateralized Borrowings consist of short-term advances from the FHLB of Chicago, and the inputs used in the valuation are considered Level 2 measurements.

Note 13 - Contingencies

In the ordinary course of its businesses, the Company is involved in legal proceedings including lawsuits, regulatory examinations, audits and inquiries. Except with regard to the matters discussed below, based on currently available information, the Company does not believe that it is reasonably possible that any of its pending legal proceedings will have a material effect on the Company's consolidated financial statements.

Over the last decade, there have been an array of initiatives that seek to impose new duties on life insurance companies to proactively search for information related to the deaths of their insureds. These initiatives, which can include legislation, unclaimed property audits, market conduct examinations and related litigation, could have the effect of altering the terms of Kemper's life insurance subsidiaries' existing life insurance contracts by imposing requirements that did not exist and were not contemplated at the time those companies entered into such contracts. In 2016, the Company voluntarily began implementing a comprehensive process to compare its life insurance records against one or more death verification databases to determine if any of its insureds may be deceased. Any attempt to estimate the ultimate outcomes of the aforementioned initiatives entails uncertainties including, but not limited to (i) the scope and interpretation of statutes that require proactive use of death verification databases ("DMF"), including the matching criteria and methodologies to be used in comparing policy records against a DMF, (ii) the universe of policies affected, (iii) the results of audits, examinations and other actions by regulators, and (iv) related litigation.

Gain Contingency

In October 2015, Kemper's subsidiary, Kemper Corporate Services, Inc. ("KCSI"), filed a demand for arbitration with the American Arbitration Association ("AAA"), claiming that Computer Services Corporation ("CSC") had breached the terms of a master software license and services agreement and related agreements (collectively, the "Agreements") by

failing, among other things, to timely produce and deliver certain software to KCSI. CSC denied KCSI's claims and filed a counterclaim. On April 1, 2017, CSC merged with a spin-off of the Enterprise Services business of Hewlett Packard Enterprise Company and is now known as DXC Technology Company ("DXC"); DXC's stock is publicly traded on the New York Stock Exchange.

KEMPER CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

Note 13 - Contingencies (continued)

In April 2017, the parties participated in an evidentiary hearing before a AAA-appointed arbitrator.

In October 2017, the arbitrator issued a Partial Final Award finding that CSC had breached the Agreements and awarding KCSI direct damages of \$84.3 million plus pre-judgment interest at an annual rate of 9% pursuant to applicable law. KCSI subsequently filed a Motion to Confirm Arbitration Award in the U.S. District Court for the Northern District of Texas seeking confirmation and enforcement of the Partial Final Award and also submitted to the arbitrator a supplemental petition providing pre-judgment interest calculations and seeking an award for certain arbitration costs and expenses. In November 2017, the arbitrator issued a Final Award granting KCSI direct damages against CSC of \$84.3 million, prejudgment interest at the annual rate of 9% and costs and expenses in the amount of \$7.2 million. KCSI then filed an Amended Motion to Confirm Arbitration Award seeking confirmation and enforcement of the Final Award.

In December 2017, CSC filed a Petition to Vacate an Arbitration Award in the U.S. District Court for the Southern District of New York and a motion to stay the proceedings in Texas. Following briefing and a hearing, the New York district court denied CSC's motion to stay the Texas action and instead stayed the New York action. In March 2018, the Texas district court denied CSC's motion to transfer venue and the New York district court subsequently transferred the vacatur proceeding to Texas. In April, the Texas district court consolidated the two actions and the parties briefed KCSI's Amended Motion to Confirm Arbitration Award and CSC's motion to vacate the arbitration award.

On September 26, 2018, the Texas district court issued an Amended Final Judgment that (i) confirmed the Arbitration Award in favor of KCSI, (ii) denied CSC's motion to vacate, and (iii) entered judgment in the amount of \$141.7 million against CSC. CSC has indicated it intends to appeal the court's ruling, but in the meantime has tendered to Kemper a payment of \$35.7 million as partial satisfaction of the final judgment, with approximately \$28.5 million of the payment attributable to the direct damages that are not contested by CSC and \$7.2 million to the costs and expenses noted above. Kemper has recognized the payment as a gain for the nine and three months ended September 30, 2018 in these Condensed Consolidated Financial Statements.

The Company cannot make any assurance as to the additional amounts of the final judgment that will actually be collected or when they may be received. The unpaid balance of the final judgment is treated as a gain contingency for accounting purposes and accordingly, is not recognized in these Condensed Consolidated Financial Statements.

Note 14 - Related Parties

Mr. Christopher B. Sarofim, a director of Kemper, is Vice Chairman and a member of the board of directors of Fayez Sarofim & Co. ("FS&C"), a registered investment advisory firm. The Company's defined benefit pension plan had \$141.5 million in assets managed by FS&C at September 30, 2018 under an agreement with FS&C whereby FS&C provides investment management services with respect to certain funds of the plan. Investment expenses incurred in connection with such agreement were \$0.7 million and \$0.6 million for the nine months ended September 30, 2018 and 2017, respectively.

The Company believes that the services described above have been provided on terms no less favorable to the Company than could have been negotiated with non-affiliated third parties.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## Summary of Results

Net Income was \$183.6 million (\$3.26 per unrestricted common share) for the nine months ended September 30, 2018, compared to \$84.0 million (\$1.63 per unrestricted common share) for the same period in 2017. Income from Continuing Operations was \$183.4 million (\$3.26 per unrestricted common share) for the nine months ended September 30, 2018, compared to \$84.0 million (\$1.63 per unrestricted common share) for the same period in 2017. Net Income was \$92.2 million (\$1.42 per unrestricted common share) for the three months ended September 30, 2018, compared to \$47.7 million (\$0.92 per unrestricted common share) for the same period in 2017. Income from Continuing Operations was \$92.3 million (\$1.42 per unrestricted common share) for the three months ended September 30, 2018, compared to \$47.8 million (\$0.92 per unrestricted common share) for the same period in 2017. A reconciliation of Net Income to Adjusted Consolidated Net Operating Income (a non-GAAP financial measure) for the nine and three months ended September 30, 2018 and 2017 is presented below.

| (Dollars in Millions and Net of Income Taxes)                | Nine Months Ended |              |                     | Three Months Ended |              |                     |
|--|-------------------|--------------|---------------------|--------------------|--------------|---------------------|
|  | Sep 30, 2018      | Sep 30, 2017 | Increase (Decrease) | Sep 30, 2018       | Sep 30, 2017 | Increase (Decrease) |
| Net Income   | \$183.6           | \$84.0       | \$ 99.6             | \$92.2             | \$47.7       | \$ 44.5             |
| Income from Discontinued Operations                          | 0.2               | —            | 0.2                 | (0.1 )             | (0.1 )       | —                   |
| Income from Continuing Operations                            | 183.4             | 84.0         | 99.4                | 92.3               | 47.8         | 44.5                |
| Less:  |                   |              |                     |                    |              |                     |
| Income from Change in Fair Value of Equity Securities        | 9.6               | —            | 9.6                 | 8.7                | —            | 8.7                 |
| Net Realized Gains on Sales of Investments                   | 7.9               | 29.3         | (21.4 )             | 2.8                | 5.3          | (2.5 )              |
| Net Impairment Losses Recognized in Earnings                 | (1.8 )            | (6.8 )       | 5.0                 | (1.4 )             | (1.9 )       | 0.5                 |
| Acquisition Related Transaction, Integration and Other Costs | (30.8 )           | —            | (30.8 )             | (22.3 )            | —            | (22.3 )             |
| Adjusted Consolidated Net Operating Income                   | \$198.5           | \$61.5       | \$ 137.0            | \$104.5            | \$44.4       | \$ 60.1             |

## Components of Adjusted Consolidated Net Operating Income:

## Segment Net Operating Income:

|   |         |        |          |         |        |         |
|---|---------|--------|----------|---------|--------|---------|
| Property & Casualty Insurance                         | 79.4    | 5.7    | 73.7     | 28.2    | 22.9   | 5.3     |
| Life & Health Insurance                               | 76.9    | 65.5   | 11.4     | 26.7    | 23.5   | 3.2     |
| Corporate and Other Net Operating Income (Loss) From: |         |        |          |         |        |         |
| Effects of Tax Law Changes                            | 26.0    | —      | 26.0     | 26.0    | —      | 26.0    |
| Partial Satisfaction of Judgment                      | 28.2    | —      | 28.2     | 28.2    | —      | 28.2    |
| Other   | (12.0 ) | (9.7 ) | (2.3 )   | (4.6 )  | (2.0 ) | (2.6 )  |
| Corporate and Other Net Operating Income (Loss)       | 42.2    | (9.7 ) | 51.9     | 49.6    | (2.0 ) | 51.6    |
| Adjusted Consolidated Net Operating Income            | \$198.5 | \$61.5 | \$ 137.0 | \$104.5 | \$44.4 | \$ 60.1 |

## Net Income

Net Income increased by \$99.6 million for the nine months ended September 30, 2018, compared to the same period in 2017. In the Property & Casualty Insurance segment, segment net operating income increased by \$73.7 million due primarily to lower incurred catastrophe losses and LAE (excluding reserve development), a favorable change in loss and LAE reserve development and lower underlying losses and LAE as a percentage of earned premiums, particularly in the Company's preferred personal automobile insurance and nonstandard automobile insurance businesses. See MD&A, "Property & Casualty Insurance," for additional discussion of the segment's results. In the Life & Health Insurance segment, segment net operating income increased by \$11.4 million due primarily to lower income tax rates and, to a lesser extent, lower commissions, partially offset by higher incurred losses and policyholders benefits as a percentage of earned premiums. See MD&A, "Life & Health Insurance," for discussion of the segment's results. The Company's results were positively impacted in 2018, compared to



## Summary of Results (continued)

2017, due to the recognition of a gain for the partial satisfaction of a final judgment against CSC and a tax benefit due to the finalization of certain effects of the Tax Act on deferred income taxes (see Note 13, "Contingencies," and Note 9, "Income Taxes," respectively, to the Condensed Consolidated Financial Statements). The Company's results were adversely impacted in 2018, compared to 2017, by lower net realized gains on sales of investments, acquisition related transaction and integration costs, a lease termination charge associated with the Company's relocation of its corporate headquarters and higher interest expense. See MD&A, "Investment Results," and MD&A, "Insurance Expenses and Interest and Other Expenses," for additional discussion.

Net Income increased by \$44.5 million for the three months ended September 30, 2018, compared to the same period in 2017. In the Property & Casualty Insurance segment, segment net operating income increased by \$5.3 million due primarily to lower incurred catastrophe losses and LAE (excluding reserve development) and a favorable change in loss and LAE reserve development, partially offset by higher insurance expenses as a percentage of average earned premiums, driven by amortization of intangible assets associated with the Infinity acquisition, and higher underlying losses as a percentage of earned premiums within homeowners insurance. See MD&A, "Property & Casualty Insurance," for additional discussion of the segment's results. In the Life & Health Insurance segment, segment net operating income increased by \$3.2 million due primarily to lower income tax rates. See MD&A, "Life & Health Insurance," for discussion of the segment's results. The Company's results were positively impacted in 2018, compared to 2017, due to the recognition of the gain for the partial satisfaction of the judgment against CSC and the tax benefit due to the finalization of certain effects of the Tax Act on deferred income taxes, partially offset by acquisition related transaction and integration costs and the lease termination charge.

## Revenues

Earned Premiums were \$2,320.8 million for the nine months ended September 30, 2018, compared to \$1,744.1 million for the same period in 2017, an increase of \$576.7 million. Earned Premiums for the nine months ended September 30, 2018 increased by \$568.4 million and \$8.3 million in the Property & Casualty Insurance segment and Life & Health Insurance segment, respectively. Infinity accounted for \$377.9 million of the increase in Earned Premiums in the Property & Casualty Insurance segment for the nine months ended September 30, 2018. See MD&A, "Property & Casualty Insurance," and MD&A, "Life & Health Insurance," for discussion of the changes in each segment's earned premiums.

Earned Premiums were \$1,052.9 million for the three months ended September 30, 2018, compared to \$598.2 million for the same period in 2017, an increase of \$454.7 million. Earned Premiums for the three months ended September 30, 2018 increased by \$451.7 million and \$3.0 million in the Property & Casualty Insurance segment and Life & Health Insurance segment, respectively. Infinity accounted for \$377.9 million of the increase in Earned Premiums in the Property & Casualty Insurance segment for the three months ended September 30, 2018. See MD&A, "Property & Casualty Insurance," and MD&A, "Life & Health Insurance," for discussion of the changes in each segment's earned premiums.

Net Investment Income increased by \$5.0 million for the nine months ended September 30, 2018, compared to the same period in 2017, due primarily to a higher level of investments in fixed income securities and short-term securities, partially offset by a lower rate of return from Alternative Investments, lower yields on fixed income securities and the impact of presenting Fair Value Option Investments within Income from Change in Fair Value of Equity Securities (outside of Net Investment Income) as of January 1, 2018. Net Investment Income from Alternative Investments, which consists of Equity Method Limited Liability Investments and limited liability investments included in either Equity Securities at Fair Value or Equity Securities at Modified Cost, decreased by \$9.7 million. Alternative investment income from Equity Method Limited Liability Investments decreased by \$13.8 million, partially offset by an increase in alternative investment income from limited liability investments included in either Equity Securities at Fair Value or Equity Securities at Modified Cost of \$4.1 million for the nine months ended September 30, 2018, compared to the same period in 2017. No Net Investment Income was recorded on Fair Value Option Investments for the nine months ended September 30, 2018, compared to \$1.0 million for the same period in 2017.

Net Investment Income increased by \$6.1 million for the three months ended September 30, 2018, compared to the same period in 2017, due primarily to a higher level of investments in fixed income securities and short-term securities, partially offset by a lower rate of return from Alternative Investments, lower yields on fixed income securities and the impact of presenting Fair Value Option Investments within Income from Change in Fair Value of Equity Securities (outside of Net Investment Income) as of January 1, 2018. Net Investment Income from Alternative Investments, which consists of Equity Method Limited Liability Investments and limited liability investments included in either Equity Securities at Fair Value or Equity Securities at Modified Cost, decreased by \$3.7 million. Alternative investment income from Equity Method Limited Liability Investments decreased by \$11.5 million, partially offset by an increase in alternative investment income from limited liability investments included in either Equity Securities at Fair Value or Equity Securities at Modified Cost by \$7.8 million, for the three months ended September 30, 2018, compared to the



## Summary of Results (continued)

same period in 2017. No Net Investment Income was recorded on Fair Value Option Investments for the three months ended September 30, 2018, compared to a loss of \$0.5 million for the same period in 2017.

Other Income increased by \$37.3 million and \$36.8 million for the nine and three months ended September 30, 2018, respectively, compared to the same periods in 2017, due primarily to the the partial satisfaction of the final judgment against CSC. The Company cannot make any assurance as to the additional amounts of the final judgment that will actually be collected or when they may be received. The unpaid balance of the final judgment is treated as a gain contingency for accounting purposes and accordingly, is not recognized in these Condensed Consolidated Financial Statements. See Note 13, "Contingencies," to the Condensed Consolidated Financial Statements.

Net Realized Gains on Sales of Investments were \$10.0 million for the nine months ended September 30, 2018, compared to \$45.0 million for the same period in 2017. Net Realized Gains on Sales of Investments were \$3.6 million for the three months ended September 30, 2018, compared to \$8.1 million for the same period in 2017.

Net Impairment Losses Recognized in Earnings were \$2.3 million for the nine months ended September 30, 2018, compared to \$10.5 million for the same period in 2017. There were \$1.8 million Net Impairment Losses Recognized in Earnings for the three months ended September 30, 2018, compared to \$2.9 million for the same period in 2017. See MD&A, "Investment Results," under the sub-captions "Net Realized Gains on Sales of Investments" and "Net Impairment Losses Recognized in Earnings" for additional discussion. The Company cannot predict if or when similar investment gains or losses may occur in the future.

## Non-GAAP Financial Measures

## Underlying Losses and LAE and Underlying Combined Ratio

The following discussion for the Property & Casualty Insurance segment uses the non-GAAP financial measures of (i) Underlying Losses and LAE and (ii) Underlying Combined Ratio. Underlying Losses and LAE (also referred to in the discussion as "Current Year Non-catastrophe Losses and LAE") exclude the impact of catastrophe losses, and loss and LAE reserve development from prior years from the Company's Incurred Losses and LAE, which is the most directly comparable GAAP financial measure. The Underlying Combined Ratio is computed by adding the Current Year Non-catastrophe Losses and LAE Ratio with the Insurance Expense Ratio. The most directly comparable GAAP financial measure is the Combined Ratio, which is computed by adding total incurred losses and LAE, including the impact of catastrophe losses and loss and LAE reserve development from prior years, with the Insurance Expense Ratio.

The Company believes Underlying Losses and LAE and the Underlying Combined Ratio are useful to investors and uses these financial measures to reveal the trends in the Company's Property & Casualty Insurance segment that may be obscured by catastrophe losses and prior year reserve development. These catastrophe losses may cause the Company's loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude and can have a significant impact on incurred losses and LAE and the combined ratio. Prior-year reserve developments are caused by unexpected loss development on historical reserves. Because reserve development relates to the re-estimation of losses from earlier periods, it has no bearing on the performance of the Company's insurance products in the current period. The Company believes it is useful for investors to evaluate these components separately and in the aggregate when reviewing the Company's underwriting performance.

## Adjusted Consolidated Net Operating Income

Adjusted Consolidated Net Operating Income is an after-tax, non-GAAP financial measure and is computed by excluding from Income from Continuing Operations the after-tax impact of:

- (i) Income (Loss) from Change in Fair Value of Equity Securities;
- (ii) Net Realized Gains on Sales of Investments;
- (iii) Net Impairment Losses Recognized in Earnings related to investments;
- (iv) Acquisition Related Transaction, Integration and Other Costs;
- (v) Loss from Early Extinguishment of Debt; and
- (vi) Significant non-recurring or infrequent items that may not be indicative of ongoing operations.

Significant non-recurring items are excluded when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years and (b) there has been no similar charge or gain within the prior two years. The

most directly comparable GAAP financial measure is Income from Continuing Operations. There were no applicable significant non-

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Non-GAAP Financial Measures (continued)

recurring items that the Company excluded from the calculation of Adjusted Consolidated Net Operating Income for the nine and three months ended September 30, 2018 or 2017.

The Company believes that Adjusted Consolidated Net Operating Income provides investors with a valuable measure of its ongoing performance because it reveals underlying operational performance trends that otherwise might be less apparent if the items were not excluded. Income (Loss) from Change in Fair Value of Equity Securities, Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings related to investments included in the Company's results may vary significantly between periods and are generally driven by business decisions and external economic developments such as capital market conditions that impact the values of the Company's investments, the timing of which is unrelated to the insurance underwriting process. Loss from Early Extinguishment of Debt is driven by the Company's financing and refinancing decisions and capital needs, as well as external economic developments such as debt market conditions, the timing of which is unrelated to the insurance underwriting process. Acquisition Related Transaction and Integration Costs may vary significantly between periods and are generally driven by the timing of acquisitions and business decisions which are unrelated to the insurance underwriting process. Significant non-recurring items are excluded because, by their nature, they are not indicative of the Company's business or economic trends.

The preceding non-GAAP financial measures should not be considered a substitute for the comparable GAAP financial measures, as they do not fully recognize the overall profitability of the Company's businesses.

## Property &amp; Casualty Insurance

Selected financial information for the Property &amp; Casualty Insurance segment follows.

| (Dollars in Millions)                             | Nine Months Ended |                 | Three Months Ended |                 |   |
|---|-------------------|-----------------|--------------------|-----------------|---|
|   | Sep 30,<br>2018   | Sep 30,<br>2017 | Sep 30,<br>2018    | Sep 30,<br>2017 |   |
| Net Premiums Written                              | \$1,956.8         | \$1,336.3       | \$931.0            | \$466.7         |   |
| Earned Premiums                                   | \$1,851.5         | \$1,283.1       | \$895.2            | \$443.5         |   |
| Net Investment Income                             | 79.4              | 72.5            | 34.0               | 27.8            |   |
| Other Income                                      | 1.6               | 0.9             | 0.9                | 0.4             |   |
| Total Revenues                                    | 1,932.5           | 1,356.5         | 930.1              | 471.7           |   |
| Incurred Losses and LAE related to:               |                   |                 |                    |                 |   |
| Current Year:                                     |                   |                 |                    |                 |   |
| Non-catastrophe Losses and LAE                    | 1,325.7           | 924.5           | 644.2              | 313.1           |   |
| Catastrophe Losses and LAE                        | 69.6              | 128.2           | 19.7               | 29.8            |   |
| Prior Years:                                      |                   |                 |                    |                 |   |
| Non-catastrophe Losses and LAE                    | 4.9               | 23.0            | (3.5 )             | 1.6             |   |
| Catastrophe Losses and LAE                        | (7.7 )            | (4.4 )          | (0.2 )             | (1.2 )          |   |
| Total Incurred Losses and LAE                     | 1,392.5           | 1,071.3         | 660.2              | 343.3           |   |
| Insurance Expenses                                | 441.4             | 287.4           | 234.0              | 97.6            |   |
| Other Expenses                                    | 1.7               | —               | 1.7                | —               |   |
| Operating Profit (Loss)                           | 96.9              | (2.2 )          | 34.2               | 30.8            |   |
| Income Tax Benefit (Expense)                      | (17.5 )           | 7.9             | (6.0 )             | (7.9 )          |   |
| Segment Net Operating Income                      | \$79.4            | \$5.7           | \$28.2             | \$22.9          |   |
| Ratios Based On Earned Premiums                   |                   |                 |                    |                 |   |
| Current Year Non-catastrophe Losses and LAE Ratio | 71.5              | % 72.0          | % 71.9             | % 70.6          | % |
| Current Year Catastrophe Losses and LAE Ratio     | 3.8               | 10.0            | 2.2                | 6.7             |   |
| Prior Years Non-catastrophe Losses and LAE Ratio  | 0.3               | 1.8             | (0.4 )             | 0.4             |   |
| Prior Years Catastrophe Losses and LAE Ratio      | (0.4 )            | (0.3 )          | —                  | (0.3 )          |   |
| Total Incurred Loss and LAE Ratio                 | 75.2              | 83.5            | 73.7               | 77.4            |   |
| Insurance Expense Ratio                           | 23.8              | 22.4            | 26.1               | 22.0            |   |
| Combined Ratio                                    | 99.0              | % 105.9         | % 99.8             | % 99.4          | % |
| Underlying Combined Ratio                         |                   |                 |                    |                 |   |
| Current Year Non-catastrophe Losses and LAE Ratio | 71.5              | % 72.0          | % 71.9             | % 70.6          | % |
| Insurance Expense Ratio                           | 23.8              | 22.4            | 26.1               | 22.0            |   |
| Underlying Combined Ratio                         | 95.3              | % 94.4          | % 98.0             | % 92.6          | % |
| Reconciliation of Non-GAAP Financial Measure      |                   |                 |                    |                 |   |
| Underlying Combined Ratio                         | 95.3              | % 94.4          | % 98.0             | % 92.6          | % |
| Current Year Catastrophe Losses and LAE Ratio     | 3.8               | 10.0            | 2.2                | 6.7             |   |
| Prior Years Non-catastrophe Losses and LAE Ratio  | 0.3               | 1.8             | (0.4 )             | 0.4             |   |
| Prior Years Catastrophe Losses and LAE Ratio      | (0.4 )            | (0.3 )          | —                  | (0.3 )          |   |
| Combined Ratio as Reported                        | 99.0              | % 105.9         | % 99.8             | % 99.4          | % |

## Property &amp; Casualty Insurance (continued)

## Catastrophe Frequency and Severity

| (Dollars in Millions)              | Nine Months Ended |        |                   |         |
|------------------------------------|-------------------|--------|-------------------|---------|
|                                    | Sep 30, 2018      |        | Sep 30, 2017      |         |
|                                    | Numbers of Events | LAE    | Numbers of Events | LAE     |
| Range of Losses and LAE Per Event: |                   |        |                   |         |
| Below \$5                          | 36                | \$26.1 | 30                | \$53.7  |
| \$5 - \$10                         | 3                 | 20.8   | 1                 | 5.0     |
| \$10 - \$15                        | 2                 | 22.7   | 2                 | 24.3    |
| \$15 - \$20                        | —                 | —      | —                 | —       |
| \$20 - \$25                        | —                 | —      | —                 | —       |
| Greater Than \$25                  | —                 | —      | 1                 | 45.2    |
| Total                              | 41                | \$69.6 | 34                | \$128.2 |

## Insurance Reserves

| (Dollars in Millions)     | Sep 30, 2018 | Dec 31, 2017 |
|---------------------------|--------------|--------------|
| Insurance Reserves:       |              |              |
| Automobile                | \$1,623.1    | \$795.9      |
| Homeowners                | 139.4        | 139.7        |
| Other                     | 18.6         | 40.7         |
| Insurance Reserves        | \$1,781.1    | \$976.3      |
| Insurance Reserves:       |              |              |
| Loss Reserves:            |              |              |
| Case                      | \$905.5      | \$602.4      |
| Incurred But Not Reported | 582.1        | 239.3        |
| Total Loss Reserves       | 1,487.6      | 841.7        |
| LAE Reserves              | 293.5        | 134.6        |
| Insurance Reserves        | \$1,781.1    | \$976.3      |

See MD&A, “Critical Accounting Estimates,” of the 2017 Annual Report for additional information pertaining to the Company’s process of estimating property and casualty insurance reserves for losses and LAE, development of property and casualty insurance losses and LAE from prior accident years, also referred to as “reserve development” in the discussion of segment results, estimated variability of property and casualty insurance reserves for losses and LAE, and a discussion of some of the variables that may impact development of property and casualty insurance losses and LAE and the estimated variability of property and casualty insurance reserves for losses and LAE.

## Acquisition of Infinity

As discussed in Note 2, “Acquisition of Business,” to the Condensed Consolidated Financial Statements, the Company completed its acquisition of Infinity on July 2, 2018. The results of its operations have been included in the preceding tables of selected financial information for the Property & Casualty Insurance segment from the date of its acquisition and forward. Infinity is a national provider of auto insurance focused on serving the specialty, nonstandard segment. With approximately 10,600 independent agents and \$1.4 billion in 2017 direct written premiums, Infinity is one of the largest nonstandard auto insurers in the United States.

## Property &amp; Casualty Insurance (continued)

## Overall

## Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

The Property & Casualty Insurance segment reported Segment Net Operating Income of \$79.4 million for the nine months ended September 30, 2018, compared to Segment Net Operating Income of \$5.7 million for the same period in 2017. Segment net operating results improved by \$73.7 million due primarily to lower incurred catastrophe losses and LAE (excluding reserve development), a favorable change in loss and LAE reserve development, lower underlying losses and LAE as a percentage of earned premiums, particularly in the Company's preferred personal automobile insurance and nonstandard personal automobile insurance businesses, partially offset by higher insurance expenses as a percentage of earned premiums due to amortization of Infinity purchase accounting adjustments.

Earned Premiums in the Property & Casualty Insurance segment increased by \$568.4 million for the nine months ended September 30, 2018. Infinity accounted for \$377.9 million of the increase, while higher volume and higher average earned premium on Kemper's legacy business accounted for increases of \$125.3 million and \$65.3 million, respectively. The higher volume was driven by nonstandard personal automobile insurance, which had a volume increase of \$147.6 million, partially offset by volume decreases in homeowners insurance and preferred personal automobile insurance of \$12.3 million and \$4.7 million, respectively. The majority of product lines experienced an increase in average earned premium, although the overall impact on Earned Premiums was driven primarily by nonstandard personal automobile insurance and preferred personal automobile insurance, which had increases due to higher average earned premium of \$50.1 million and \$13.4 million, respectively.

Net Investment Income in the Property & Casualty Insurance segment increased by \$6.9 million for the nine months ended September 30, 2018, compared to the same period in 2017, due primarily to higher level of investments in fixed income securities and to a lesser extent, a higher rate of return from Alternative Investments. The Property & Casualty Insurance segment reported Net Investment Income from Alternative Investments of \$30.3 million in 2018, compared to \$30.1 million in 2017.

Underlying losses and LAE as a percentage of earned premiums were 71.5% in 2018, an improvement of 0.5 percentage points, compared to 2017, driven primarily by improvements in nonstandard personal automobile insurance, preferred personal automobile insurance and commercial automobile insurance, partially offset by deterioration in homeowners insurance. Underlying losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Catastrophe losses and LAE (excluding reserve development) were \$69.6 million in 2018, compared to \$128.2 million in 2017, a decrease of \$58.6 million. This decrease was due primarily to no catastrophic events with losses and LAE (excluding reserve development) of greater than \$25 million in 2018, compared to one, a Texas hailstorm, occurring in 2017. Favorable Loss and LAE reserve development (including catastrophe reserve development) was \$2.8 million in 2018, compared to adverse development of \$18.6 million in 2017.

Insurance expenses were \$441.4 million, or 23.8% of earned premiums, in 2018, a deterioration of 1.4 percentage points compared to 2017, driven primarily by the amortization of Infinity purchase accounting adjustments.

The Property & Casualty Insurance segment's effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were \$14.4 million in 2018, compared to \$19.6 million in 2017.

## Property &amp; Casualty Insurance (continued)

## Overall

## Three Months Ended September 30, 2018 Compared to the Same Period in 2017

The Property & Casualty Insurance segment reported Segment Net Operating Income of \$28.2 million for the three months ended September 30, 2018, compared to \$22.9 million for the same period in 2017. Segment net operating results improved by \$5.3 million due primarily to lower incurred catastrophe losses and LAE (excluding reserve development) and a favorable change in loss and LAE reserve development, partially offset by higher insurance expenses as a percentage of earned premiums due to amortization of Infinity purchase accounting adjustments and higher underlying losses and LAE as a percentage of earned premiums, particularly in the Company's homeowners insurance business.

Earned Premiums in the Property & Casualty Insurance segment increased by \$451.7 million for the three months ended September 30, 2018. Infinity accounted for \$377.9 million of the increase, while higher volume and higher average earned premium on Kemper's legacy business accounted for increases of \$53.7 million and \$20.2 million, respectively. The higher volume was driven primarily by nonstandard personal automobile insurance, which had a volume increase of \$59.7 million, partially offset by a volume decrease in homeowners insurance of \$3.9 million. The majority of product lines experienced an increase in average earned premium, although the overall impact on Earned Premiums was driven primarily by nonstandard personal automobile insurance and preferred personal automobile insurance, which had increases due to higher average earned premium of \$47.9 million and \$5.1 million, respectively. Net Investment Income in the Property & Casualty Insurance segment increased by \$6.2 million for the three months ended September 30, 2018, compared to the same period in 2017, due primarily to higher level of investments in fixed income securities and to a lesser extent, a higher rate of return on Alternative Investments. The Property & Casualty Insurance segment reported Net Investment Income from Alternative Investments of \$15.9 million in 2018, compared to \$12.7 million in 2017.

Underlying losses and LAE as a percentage of earned premiums were 71.9% in 2018, an increase of 1.3 percentage points, compared to 2017, driven primarily by deterioration in homeowners insurance, partially offset by improvements in preferred personal automobile insurance and nonstandard personal automobile insurance. Underlying losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Catastrophe losses and LAE (excluding reserve development) were \$19.7 million in 2018, compared to \$29.8 million in 2017, a decrease of \$10.1 million driven primarily by lower severity of losses, partially offset by higher frequency of catastrophes. Favorable loss and LAE reserve development (including catastrophe reserve development) was \$3.7 million in 2018, compared to adverse development of \$0.4 million in 2017.

Insurance expenses were \$234.0 million, or 26.1% of earned premiums, in 2018, an increase of 4.1 percentage points compared to 2017, driven primarily by the amortization of Infinity purchase accounting adjustments.

The Property & Casualty Insurance segment's effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were \$5.8 million in 2018, compared to \$7.0 million in 2017.

## Property &amp; Casualty Insurance (continued)

## Preferred Personal Automobile Insurance

Selected financial information for the preferred personal automobile insurance product line follows.

| (Dollars in Millions)               | Nine Months Ended |              | Three Months Ended |              |
|-------------------------------------|-------------------|--------------|--------------------|--------------|
|                                     | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Net Premiums Written                | \$346.4           | \$321.4      | \$119.3            | \$112.6      |
| Earned Premiums                     | \$325.0           | \$316.3      | \$111.4            | \$106.5      |
| Incurred Losses and LAE related to: |                   |              |                    |              |
| Current Year:                       |                   |              |                    |              |
| Non-catastrophe Losses and LAE      | \$223.2           | \$227.9      | \$74.9             | \$74.2       |
| Catastrophe Losses and LAE          | 6.8               | 11.4         | 2.3                | 2.8          |
| Prior Years:                        |                   |              |                    |              |
| Non-catastrophe Losses and LAE      | (3.5 )            | 18.2         | (2.6 )             | 0.8          |
| Catastrophe Losses and LAE          | (0.1 )            | (0.2 )       | —                  | —            |
| Total Incurred Losses and LAE       | \$226.4           | \$257.3      | \$74.6             | \$77.8       |

## Ratios Based On Earned Premiums

|   |        |   |        |   |        |   |      |   |
|---|--------|---|--------|---|--------|---|------|---|
| Current Year Non-catastrophe Losses and LAE Ratio | 68.7   | % | 72.0   | % | 67.2   | % | 69.7 | % |
| Current Year Catastrophe Losses and LAE Ratio     | 2.1    |   | 3.6    |   | 2.1    |   | 2.6  |   |
| Prior Years Non-catastrophe Losses and LAE Ratio  | (1.1 ) |   | 5.8    |   | (2.3 ) |   | 0.8  |   |
| Prior Years Catastrophe Losses and LAE Ratio      | —      |   | (0.1 ) |   | —      |   | —    |   |
| Total Incurred Loss and LAE Ratio                 | 69.7   | % | 81.3   | % | 67.0   | % | 73.1 | % |

## Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums on preferred personal automobile insurance increased by \$8.7 million as higher average earned premium accounted for an increase of \$13.4 million, while lower volume accounted for a decrease of \$4.7 million. The run-off of the direct-to-consumer business accounted for approximately 85% of the decrease in earned premiums attributed to lower volume. Incurred losses and LAE were \$226.4 million, or 69.7% of earned premiums, in 2018, compared to \$257.3 million, or 81.3% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to a favorable change in loss and LAE reserve development, lower underlying losses and LAE as a percentage of related earned premiums and lower incurred catastrophe losses and LAE (excluding reserve development). Underlying losses and LAE as a percentage of related earned premiums were 68.7% in 2018, compared to 72.0% in 2017, an improvement of 3.3 percentage points due primarily to lower frequency of claims and higher average earned premium, partially offset by higher severity of losses. Catastrophe losses and LAE (excluding reserve development) were \$6.8 million in 2018, compared to \$11.4 million in 2017. Loss and LAE reserve development was favorable by \$3.6 million in 2018, compared to adverse development of \$18.0 million in 2017.

## Three Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums on preferred personal automobile insurance increased by \$4.9 million as higher average earned premium accounted for an increase of \$5.1 million, while lower volume accounted for a decrease of \$0.2 million. The decrease in earned premiums attributed to lower volume were driven entirely by the run-off of the direct-to-consumer business. Incurred losses and LAE were \$74.6 million, or 67.0% of earned premiums, in 2018, compared to \$77.8 million, or 73.1% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to a favorable change in loss and LAE reserve development and lower underlying losses and LAE as a percentage of related earned premiums. Underlying losses and LAE as a percentage of related earned premiums were 67.2% in 2018, compared to 69.7% in 2017, an improvement of 2.5 percentage points due primarily to



lower frequency of claims and higher average earned premium, partially offset by higher severity of losses. Catastrophe losses and LAE (excluding reserve development) were \$2.3 million in 2018, compared to \$2.8 million in 2017. Loss and LAE reserve development was favorable \$2.6 million in 2018, compared to adverse development of \$0.8 million in 2017.

## Property &amp; Casualty Insurance (continued)

## Nonstandard Personal Automobile Insurance

Selected financial information for the nonstandard personal automobile insurance product line follows.

| (Dollars in Millions)               | Nine Months Ended |              | Three Months Ended |              |
|-------------------------------------|-------------------|--------------|--------------------|--------------|
|                                     | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Net Premiums Written                | \$1,309.4         | \$742.5      | \$679.1            | \$259.8      |
| Earned Premiums                     | \$1,229.0         | \$696.5      | \$655.3            | \$246.5      |
| Incurred Losses and LAE related to: |                   |              |                    |              |
| Current Year:                       |                   |              |                    |              |
| Non-catastrophe Losses and LAE      | \$926.2           | \$545.8      | \$485.6            | \$185.5      |
| Catastrophe Losses and LAE          | 3.2               | 5.6          | 1.3                | 1.5          |
| Prior Years:                        |                   |              |                    |              |
| Non-catastrophe Losses and LAE      | 3.3               | 0.3          | (1.1 )             | 2.1          |
| Catastrophe Losses and LAE          | (0.2 )            | (0.2 )       | —                  | (0.1 )       |
| Total Incurred Losses and LAE       | \$932.5           | \$551.5      | \$485.8            | \$189.0      |

## Ratios Based On Earned Premiums

|   |      |   |      |   |        |   |      |   |
|---|------|---|------|---|--------|---|------|---|
| Current Year Non-catastrophe Losses and LAE Ratio | 75.3 | % | 78.4 | % | 74.1   | % | 75.2 | % |
| Current Year Catastrophe Losses and LAE Ratio     | 0.3  |   | 0.8  |   | 0.2    |   | 0.6  |   |
| Prior Years Non-catastrophe Losses and LAE Ratio  | 0.3  |   | —    |   | (0.2 ) |   | 0.9  |   |
| Prior Years Catastrophe Losses and LAE Ratio      | —    |   | —    |   | —      |   | —    |   |
| Total Incurred Loss and LAE Ratio                 | 75.9 | % | 79.2 | % | 74.1   | % | 76.7 | % |

## Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums on nonstandard personal automobile insurance increased by \$532.5 million. Infinity accounted for \$334.9 million of the increase, while higher volume and higher average earned premium on Kemper's legacy business accounted for increases of \$147.5 million and \$50.1 million, respectively. Incurred losses and LAE were \$932.5 million, or 75.9% of earned premiums, in 2018, compared to \$551.5 million, or 79.2% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to lower underlying losses and LAE as a percentage of earned premiums and, to a lesser extent, lower incurred catastrophe losses and LAE (excluding reserve development), partially offset by an unfavorable change in loss and LAE reserve development. Underlying losses and LAE as a percentage of related earned premiums were 75.3% in 2018, compared to 78.4% in 2017, an improvement of 3.1 percentage points, due primarily to higher average earned premium, partially offset by higher severity of losses. Catastrophe losses and LAE (excluding reserve development) were \$3.2 million in 2018, compared to \$5.6 million in 2017. Loss and LAE reserve development was adverse by \$3.1 million in 2018, compared to \$0.1 million in 2017.

## Three Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums on nonstandard personal automobile insurance increased by \$408.8 million. Infinity accounted for \$334.9 million of the increase, while higher volume and higher average earned premium on Kemper's legacy business accounted for increases of \$56.0 million and \$17.9 million, respectively. Incurred losses and LAE were \$485.8 million, or 74.1% of earned premiums, in 2018, compared to \$189.0 million, or 76.7% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due to lower underlying losses and LAE as a percentage of earned premiums, a favorable change in loss and LAE reserve development and, to a lesser extent, lower incurred catastrophe losses and LAE (excluding reserve development). Underlying losses and LAE as a percentage of related earned premiums were 74.1% in 2018, compared to 75.2% in 2017, an improvement of 1.1 percentage points, due primarily to higher average earned premium, partially offset by higher severity of losses.

Catastrophe losses and LAE (excluding reserve development) were \$1.3 million in 2018, compared to \$1.5 million in 2017. Favorable loss and LAE reserve development was \$1.1 million in 2018, compared to adverse development of \$2.0 million in 2017.

## Property &amp; Casualty Insurance (continued)

## Homeowners Insurance

Selected financial information for the homeowners insurance product line follows.

| (Dollars in Millions)               | Nine Months Ended |              | Three Months Ended |              |
|-------------------------------------|-------------------|--------------|--------------------|--------------|
|                                     | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Net Premiums Written                | \$187.7           | \$200.1      | \$66.0             | \$70.8       |
| Earned Premiums                     | \$186.5           | \$199.6      | \$62.5             | \$66.7       |
| Incurred Losses and LAE related to: |                   |              |                    |              |
| Current Year:                       |                   |              |                    |              |
| Non-catastrophe Losses and LAE      | \$100.8           | \$103.2      | \$36.8             | \$36.9       |
| Catastrophe Losses and LAE          | 58.4              | 108.0        | 16.0               | 24.8         |
| Prior Years:                        |                   |              |                    |              |
| Non-catastrophe Losses and LAE      | 10.1              | 3.1          | 1.8                | 0.9          |
| Catastrophe Losses and LAE          | (6.5 )            | (3.2 )       | (0.1 )             | (0.8 )       |
| Total Incurred Losses and LAE       | \$162.8           | \$211.1      | \$54.5             | \$61.8       |

## Ratios Based On Earned Premiums

|   |        |         |        |        |   |
|---|--------|---------|--------|--------|---|
| Current Year Non-catastrophe Losses and LAE Ratio | 54.1   | % 51.7  | % 58.9 | % 55.4 | % |
| Current Year Catastrophe Losses and LAE Ratio     | 31.3   | 54.1    | 25.6   | 37.2   |   |
| Prior Years Non-catastrophe Losses and LAE Ratio  | 5.4    | 1.6     | 2.9    | 1.3    |   |
| Prior Years Catastrophe Losses and LAE Ratio      | (3.5 ) | (1.6 )  | (0.2 ) | (1.2 ) |   |
| Total Incurred Loss and LAE Ratio                 | 87.3   | % 105.8 | % 87.2 | % 92.7 | % |

## Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums in homeowners insurance decreased by \$13.1 million as lower volume and lower average earned premium accounted for a decrease of \$12.3 million and \$0.8 million, respectively. The decrease in average earned premium was primarily due to higher ceded premiums for catastrophe reinsurance. Incurred losses and LAE were \$162.8 million, or 87.3% of earned premiums, in 2018, compared to \$211.1 million, or 105.8% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to lower incurred catastrophe losses and LAE (excluding reserve development), partially offset by higher underlying losses and LAE as a percentage of related earned premiums and an unfavorable change in loss and LAE reserve development.

Underlying losses and LAE as a percentage of earned premiums were 54.1% in 2018, compared to 51.7% in 2017, a deterioration of 2.4 percentage points due primarily to higher severity of losses, partially offset by lower frequency of claims. Catastrophe losses and LAE (excluding reserve development) were \$58.4 million in 2018, compared to \$108.0 million in 2017. This decrease was due primarily to no catastrophic events with losses and LAE (excluding reserve development) of greater than \$25 million in 2018, compared to one large catastrophe, a Texas hailstorm, occurring in 2017 with losses and LAE (excluding reserve development) of \$42.5 million. Loss and LAE reserve development was adverse by \$3.6 million in 2018, compared to favorable development of \$0.1 million in 2017.

## Three Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums in homeowners insurance decreased by \$4.2 million as lower volume and lower average earned premium accounted for a decrease of \$3.9 million and \$0.3 million, respectively. The decrease in average earned premium was primarily due to higher ceded premiums for catastrophe reinsurance. Incurred losses and LAE were \$54.5 million, or 87.2% of earned premiums, in 2018, compared to \$61.8 million, or 92.7% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to lower incurred catastrophe losses and LAE (excluding reserve development), partially offset by higher underlying losses and LAE as a percentage of related earned premiums and an increase in adverse loss and LAE reserve development. Underlying

losses and LAE as a percentage of earned premiums were 58.9% in 2018, compared to 55.4% in 2017, a deterioration of 3.5 percentage points due primarily to higher severity of losses, partially offset by lower frequency of claims. Catastrophe losses and LAE (excluding reserve development) were

## Property &amp; Casualty Insurance (continued)

\$16.0 million in 2018, compared to \$24.8 million in 2017. Loss and LAE reserve development was adverse by \$1.7 million and \$0.1 million in 2018 and 2017, respectively.

## Commercial Automobile Insurance

Selected financial information for the commercial automobile insurance product line follows.

| (Dollars in Millions)               | Nine Months |         | Three Months |         |
|-------------------------------------|-------------|---------|--------------|---------|
|                                     | Ended       | Ended   | Ended        | Ended   |
|                                     | Sep 30,     | Sep 30, | Sep 30,      | Sep 30, |
|                                     | 2018        | 2017    | 2018         | 2017    |
| Net Premiums Written                | \$83.3      | \$40.6  | \$56.3       | \$12.6  |
| Earned Premiums                     | \$80.6      | \$38.5  | \$55.9       | \$13.1  |
| Incurred Losses and LAE related to: |             |         |              |         |
| Current Year:                       |             |         |              |         |
| Non-catastrophe Losses and LAE      | \$60.9      | \$30.8  | \$42.0       | \$11.3  |
| Catastrophe Losses and LAE          | 0.5         | 0.7     | 0.1          | 0.2     |
| Prior Years:                        |             |         |              |         |
| Non-catastrophe Losses and LAE      | (1.3 )      | 2.1     | (0.5 )       | (1.3 )  |
| Catastrophe Losses and LAE          | (0.1 )      | (0.1 )  | —            | (0.1 )  |
| Total Incurred Losses and LAE       | \$60.0      | \$33.5  | \$41.6       | \$10.1  |

## Ratios Based On Earned Premiums

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Current Year Non-catastrophe Losses and LAE Ratio | 75.5 % | 80.0 % | 75.1 % | 86.3 % |
| Current Year Catastrophe Losses and LAE Ratio     | 0.6    | 1.8    | 0.2    | 1.5    |
| Prior Years Non-catastrophe Losses and LAE Ratio  | (1.6 ) | 5.5    | (0.9 ) | (9.9 ) |
| Prior Years Catastrophe Losses and LAE Ratio      | (0.1 ) | (0.3 ) | —      | (0.8 ) |
| Total Incurred Loss and LAE Ratio                 | 74.4 % | 87.0 % | 74.4 % | 77.1 % |

## Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums on commercial automobile insurance increased by \$42.1 million. Infinity accounted for \$43.0 million of the increase, while higher average earned premium on Kemper's legacy business accounted for \$2.0 million, partially offset by lower volume of \$2.9 million. Incurred losses and LAE were \$60.0 million, or 74.4% of earned premiums, in 2018, compared to \$33.5 million, or 87.0% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to a favorable change in loss and LAE reserve development, lower underlying losses and LAE as a percentage of earned premiums and lower incurred catastrophe losses and LAE (excluding reserve development). Underlying losses and LAE as a percentage of earned premiums were 75.5% in 2018, compared to 80.0% in 2017, an improvement of 4.5 percentage points due primarily to lower frequency of claims and higher average earned premiums, partially offset by higher severity of losses. Favorable loss and LAE reserve development was \$1.4 million in 2018, compared to adverse development of \$2.0 million in 2017.

## Three Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums on commercial automobile insurance increased by \$42.8 million. Infinity accounted for \$43.0 million of the increase, while higher average earned premium on Kemper's legacy business accounted for \$0.8 million, partially offset by lower volume of \$1.0 million. Incurred losses and LAE were \$41.6 million, or 74.4% of earned premiums, in 2018, compared to \$10.1 million, or 77.1% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to lower underlying losses and LAE as a percentage of earned premiums and lower incurred catastrophe losses and LAE (excluding reserve development), partially offset by a lower level of favorable loss and LAE reserve development. Underlying losses and LAE as a percentage of earned premiums were 75.1% in 2018, compared to 86.3% in 2017, an improvement of 11.2 percentage points due primarily to lower frequency of claims and higher average earned premium, partially offset by higher severity of losses. Favorable loss

and LAE reserve development was \$0.5 million in 2018, compared to \$1.4 million in 2017.

## Property &amp; Casualty Insurance (continued)

## Other Personal Insurance

Other personal insurance products include umbrella, dwelling fire, inland marine, earthquake, boat owners and other liability coverages. Selected financial information for other personal insurance product lines follows.

| (Dollars in Millions)               | Nine Months              |                 | Three Months             |                 |
|-------------------------------------|--------------------------|-----------------|--------------------------|-----------------|
|                                     | Ended<br>Sep 30,<br>2018 | Sep 30,<br>2017 | Ended<br>Sep 30,<br>2018 | Sep 30,<br>2017 |
| Net Premiums Written                | \$30.0                   | \$31.7          | \$10.3                   | \$10.9          |
| Earned Premiums                     | \$30.4                   | \$32.2          | \$10.1                   | \$10.7          |
| Incurred Losses and LAE related to: |                          |                 |                          |                 |
| Current Year:                       |                          |                 |                          |                 |
| Non-catastrophe Losses and LAE      | \$14.6                   | \$16.8          | \$4.9                    | \$5.2           |
| Catastrophe Losses and LAE          | 0.7                      | 2.5             | —                        | 0.5             |
| Prior Years:                        |                          |                 |                          |                 |
| Non-catastrophe Losses and LAE      | (3.7 )                   | (0.7 )          | (1.1 )                   | (0.9 )          |
| Catastrophe Losses and LAE          | (0.8 )                   | (0.7 )          | (0.1 )                   | (0.2 )          |
| Total Incurred Losses and LAE       | \$10.8                   | \$17.9          | \$3.7                    | \$4.6           |

## Ratios Based On Earned Premiums

|   |         |        |         |        |
|---|---------|--------|---------|--------|
| Current Year Non-catastrophe Losses and LAE Ratio | 48.0 %  | 52.2 % | 48.5 %  | 48.6 % |
| Current Year Catastrophe Losses and LAE Ratio     | 2.3     | 7.8    | —       | 4.7    |
| Prior Years Non-catastrophe Losses and LAE Ratio  | (12.2 ) | (2.2 ) | (10.9 ) | (8.4 ) |
| Prior Years Catastrophe Losses and LAE Ratio      | (2.6 )  | (2.2 ) | (1.0 )  | (1.9 ) |
| Total Incurred Loss and LAE Ratio                 | 35.5 %  | 55.6 % | 36.6 %  | 43.0 % |

## Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums on other personal insurance decreased by \$1.8 million as lower volume accounted for a decrease of \$2.4 million, while higher average earned premium accounted for an increase of \$0.6 million. Incurred losses and LAE were \$10.8 million, or 35.5% of earned premiums, in 2018, compared to \$17.9 million, or 55.6% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to a higher level of favorable loss and LAE reserve development, lower underlying losses and LAE as a percentage of earned premiums and lower incurred catastrophe losses and LAE (excluding reserve development). Underlying losses and LAE as a percentage of earned premiums were 48.0% in 2018, compared to 52.2% in 2017, an improvement of 4.2 percentage points due primarily to lower frequency of claims, partially offset by higher severity of losses. Catastrophe losses and LAE (excluding reserve development) were \$0.7 million in 2018, compared to \$2.5 million in 2017. Favorable loss and LAE reserve development was \$4.5 million in 2018, compared to \$1.4 million in 2017.

## Three Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums on other personal insurance decreased by \$0.6 million as lower volume accounted for a decrease of \$0.9 million, while higher average earned premium accounted for an increase of \$0.3 million. Incurred losses and LAE were \$3.7 million, or 36.6% of earned premiums, in 2018, compared to \$4.6 million, or 43.0% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to a favorable change in loss and LAE reserve development, lower underlying losses and LAE as a percentage of earned premiums and lower incurred catastrophe losses and LAE (excluding reserve development). Underlying losses and LAE as a percentage of earned premiums were 48.5% in 2018, compared to 48.6% in 2017, an improvement of 0.1 percentage points due primarily to lower frequency of claims, partially offset by higher severity of losses. There were no catastrophe losses and LAE (excluding reserve development) in 2018, compared to \$0.5 million in 2017. Favorable loss and LAE reserve development was \$1.2 million in 2018, compared to favorable development of \$1.1 million in



2017.

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## Life &amp; Health Insurance

Selected financial information for the Life & Health Insurance segment follows.

| (Dollars in Millions)                               | Nine Months Ended |              | Three Months Ended |              |
|---|-------------------|--------------|--------------------|--------------|
|   | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Earned Premiums                                     | \$469.3           | \$461.0      | \$157.7            | \$154.7      |
| Net Investment Income                               | 157.9             | 163.8        | 50.5               | 55.9         |
| Other Income  | 2.9               | 1.9          | 1.2                | 0.7          |
| Total Revenues                                      | 630.1             | 626.7        | 209.4              | 211.3        |
| Policyholders' Benefits and Incurred Losses and LAE | 301.1             | 293.6        | 97.0               | 96.8         |
| Insurance Expenses                                  | 232.7             | 233.3        | 79.4               | 78.5         |
| Operating Profit                                    | 96.3              | 99.8         | 33.0               | 36.0         |
| Income Tax Expense                                  | (19.4 )           | (34.3 )      | (6.3 )             | (12.5 )      |
| Segment Net Operating Income                        | \$76.9            | \$65.5       | \$26.7             | \$23.5       |

## Insurance Reserves

| (Dollars in Millions)                  | Sep 30, 2018 | Dec 31, 2017 |
|--|--------------|--------------|
| Insurance Reserves:                    |              |              |
| Future Policyholder Benefits           | \$3,389.4    | \$3,357.5    |
| Incurred Losses and LAE Reserves:      |              |              |
| Life                                   | 134.3        | 140.0        |
| Accident and Health                    | 27.7         | 23.5         |
| Property                               | 4.5          | 4.1          |
| Total Incurred Losses and LAE Reserves | 166.5        | 167.6        |
| Insurance Reserves                     | \$3,555.9    | \$3,525.1    |

## Overall

Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums in the Life & Health Insurance segment increased by \$8.3 million for the nine months ended September 30, 2018, compared to the same period in 2017, due primarily to higher volume from accident and health insurance products offered by Reserve National Insurance Company ("Reserve National"), partially offset by lower volume from life products offered by Reserve National and slightly lower volume from health and property products offered by Kemper Home Service Companies ("KHSC").

Net Investment Income decreased by \$5.9 million for the nine months ended September 30, 2018, compared to the same period in 2017, due primarily to a lower rate of return from Alternative Investments and lower yields on fixed income investments, partially offset by higher levels of fixed income investments.

Policyholders' Benefits and Incurred Losses and LAE increased by \$7.5 million in 2018, compared to the same period in 2017, due primarily to higher incurred losses and LAE as a percentage of earned premium on life and accident and health insurance business and overall growth in the accident and health business. Expenses in the Life & Health Insurance segment decreased by \$0.6 million due primarily to lower commissions and fringe benefits for KHSC and lower commissions for Reserve National, partially offset by growth in the accident and health business. Segment Net Operating Income in the Life & Health Insurance segment was \$76.9 million for the nine months ended September 30, 2018, compared to \$65.5 million in 2017, as current year results were impacted favorably by tax reform, which reduced the effective tax rate.

## Life and Health Insurance (continued)

## Three Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned Premiums in the Life & Health Insurance segment increased by \$3.0 million for the three months ended September 30, 2018, compared to the same period in 2017, due primarily to higher volume from accident and health insurance products offered by Reserve National and higher rates on life products offered by KHSC.

Net Investment Income decreased by \$5.4 million for the three months ended September 30, 2018, compared to the same period in 2017, due primarily to a lower rate of return from Alternative Investments and lower yields on fixed income investments, partially offset by higher levels of fixed income investments.

Policyholders' Benefits and Incurred Losses and LAE increased by \$0.2 million in 2018, compared to the same period in 2017, due primarily to overall growth in the accident and health business of Reserve National offset by lower incurred losses and LAE as a percentage of earned premium on accident and health insurance business of KHSC and Reserve National. Expenses in the Life & Health Insurance segment increased by \$0.9 million due to higher commissions for KHSC, partially offset by lower commission rates for Reserve National. Segment Net Operating Income in the Life & Health Insurance segment was \$26.7 million for the three months ended September 30, 2018, compared to \$23.5 million in 2017, as current year results were impacted favorably by tax reform, which reduced the effective tax rate.

## Life Insurance

Selected financial information for the life insurance product line follows.

| (Dollars in Millions)                               | Nine Months Ended |              | Three Months Ended |              |
|---|-------------------|--------------|--------------------|--------------|
|   | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Earned Premiums                                     | \$284.3           | \$285.6      | \$95.2             | \$94.5       |
| Net Investment Income                               | 151.7             | 158.4        | 48.4               | 54.1         |
| Other Income  | 2.5               | 1.7          | 0.9                | 0.6          |
| Total Revenues                                      | 438.5             | 445.7        | 144.5              | 149.2        |
| Policyholders' Benefits and Incurred Losses and LAE | 209.5             | 207.3        | 66.7               | 66.4         |
| Insurance Expenses                                  | 150.4             | 156.2        | 51.8               | 53.0         |
| Operating Profit                                    | 78.6              | 82.2         | 26.0               | 29.8         |
| Income Tax Expense                                  | (15.3 )           | (28.2 )      | (4.4 )             | (10.3 )      |
| Total Product Line Net Operating Income             | \$63.3            | \$54.0       | \$21.6             | \$19.5       |

## Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned premiums on life insurance decreased by \$1.3 million in 2018, compared to 2017, primarily due to lower volume on products offered by Reserve National. Policyholders' benefits on life insurance were \$209.5 million in 2018, compared to \$207.3 million in 2017, an increase of \$2.2 million that was due primarily to higher incurred claims on life policies offered by KHSC, partially offset by the favorable impact on policyholders' benefits due to reduction in Reserve National's life business. Insurance Expenses decreased by \$5.8 million in 2018, compared to 2017, due primarily to lower commissions and fringe benefits for KHSC and Reserve National.

## Three Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned premiums on life insurance increased by \$0.7 million in 2018, compared to 2017, primarily due to higher rates on products offered by KHSC, offset by lower volume on products offered by Reserve National. Policyholders' benefits on life insurance were relatively flat at \$66.7 million in 2018, compared to \$66.4 million in 2017, an increase of \$0.3 million. Insurance Expenses decreased by \$1.2 million in 2018, compared to 2017, due primarily to lower commissions and fringe benefits for Reserve National.

## Life and Health Insurance (continued)

## Accident and Health Insurance

Selected financial information for the accident and health insurance product line follows.

| (Dollars in Millions)                               | Nine Months Ended |              | Three Months Ended |              |
|---|-------------------|--------------|--------------------|--------------|
|   | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Earned Premiums                                     | \$132.0           | \$120.6      | \$44.9             | \$42.0       |
| Net Investment Income                               | 4.6               | 4.0          | 1.5                | 1.3          |
| Other Income  | 0.4               | 0.2          | 0.3                | 0.1          |
| Total Revenues                                      | 137.0             | 124.8        | 46.7               | 43.4         |
| Policyholders' Benefits and Incurred Losses and LAE | 72.8              | 65.9         | 23.5               | 22.9         |
| Insurance Expenses                                  | 58.9              | 52.5         | 19.7               | 17.6         |
| Operating Profit                                    | 5.3               | 6.4          | 3.5                | 2.9          |
| Income Tax Expense                                  | (1.4 )            | (2.4 )       | (1.0 )             | (1.2 )       |
| Total Product Line Net Operating Income             | \$3.9             | \$4.0        | \$2.5              | \$1.7        |

Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned premiums on accident and health insurance increased by \$11.4 million in 2018, compared to 2017, due primarily to higher volume on accident and health insurance products offered by Reserve National. Incurred accident and health insurance losses were \$72.8 million, or 55.2% of accident and health insurance earned premiums, in 2018, compared to \$65.9 million, or 54.6% of accident and health insurance earned premiums, in 2017, an increase of 0.6 percentage points, due primarily to higher incurred claims on certain health products offered by Reserve National. Insurance Expenses increased by \$6.4 million in 2018, compared to 2017, due primarily to growth in Reserve National's book of business.

Three Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned premiums on accident and health insurance increased by \$2.9 million in 2018, compared to 2017, due primarily to higher volume on accident and health insurance products offered by Reserve National. Incurred accident and health insurance losses were \$23.5 million, or 52.3% of accident and health insurance earned premiums, in 2018, compared to \$22.9 million, or 54.5% of accident and health insurance earned premiums, in 2017, a decrease of 2.2 percentage points, due primarily to lower incurred claims on certain health products offered by Reserve National and to a lesser extent KHSC. Insurance Expenses increased by \$2.1 million in 2018, compared to 2017, due primarily to growth in Reserve National's book of business.

## Life and Health Insurance (continued)

## Property Insurance

Selected financial information for the property insurance product line follows.

| (Dollars in Millions)                             | Nine Months Ended |              | Three Months Ended |              |
|---|-------------------|--------------|--------------------|--------------|
|   | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Earned Premiums                                   | \$53.0            | \$54.8       | \$17.6             | \$18.2       |
| Net Investment Income                             | 1.6               | 1.4          | 0.6                | 0.5          |
| Total Revenues                                    | 54.6              | 56.2         | 18.2               | 18.7         |
| Incurred Losses and LAE related to:               |                   |              |                    |              |
| Current Year:                                     |                   |              |                    |              |
| Non-catastrophe Losses and LAE                    | 15.5              | 13.4         | 5.9                | 3.9          |
| Catastrophe Losses and LAE                        | 1.7               | 5.9          | 0.4                | 3.3          |
| Prior Years:                                      |                   |              |                    |              |
| Non-catastrophe Losses and LAE                    | 1.6               | 0.4          | 0.6                | 0.1          |
| Catastrophe Losses and LAE                        | —                 | 0.7          | (0.1 )             | 0.2          |
| Total Incurred Losses and LAE                     | 18.8              | 20.4         | 6.8                | 7.5          |
| Insurance Expenses                                | 23.4              | 24.6         | 7.9                | 7.9          |
| Operating Profit                                  | 12.4              | 11.2         | 3.5                | 3.3          |
| Income Tax Expense                                | (2.7 )            | (3.7 )       | (0.9 )             | (1.0 )       |
| Total Product Line Net Operating Income           | \$9.7             | \$7.5        | \$2.6              | \$2.3        |
| Ratios Based On Earned Premiums                   |                   |              |                    |              |
| Current Year Non-catastrophe Losses and LAE Ratio | 29.3 %            | 24.4 %       | 33.5 %             | 21.5 %       |
| Current Year Catastrophe Losses and LAE Ratio     | 3.2               | 10.8         | 2.3                | 18.1         |
| Prior Years Non-catastrophe Losses and LAE Ratio  | 3.0               | 0.7          | 3.4                | 0.5          |
| Prior Years Catastrophe Losses and LAE Ratio      | —                 | 1.3          | (0.6 )             | 1.1          |
| Total Incurred Loss and LAE Ratio                 | 35.5 %            | 37.2 %       | 38.6 %             | 41.2 %       |

Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned premiums on property insurance decreased by \$1.8 million in 2018, compared to 2017. Incurred losses and LAE on property insurance were \$18.8 million, or 35.5% of property insurance earned premiums, in 2018, compared to \$20.4 million, or 37.2% of property insurance earned premiums, in 2017. Current year non-catastrophe losses and LAE on property insurance were \$15.5 million, or 29.3% of property insurance earned premiums, in 2018, compared to \$13.4 million, or 24.4% of property insurance earned premiums, in 2017, an increase of 4.9 percentage points due primarily to higher frequency of claims and severity of losses. Catastrophe losses and LAE (excluding development) were \$1.7 million in 2018, compared to \$5.9 million in 2017, due primarily to a higher frequency of claims and severity of losses in connection with catastrophic events in the prior year. Adverse loss and LAE reserve development was \$1.6 million in 2018, compared to \$1.1 million in 2017.

Three Months Ended September 30, 2018 Compared to the Same Period in 2017

Earned premiums on property insurance decreased by \$0.6 million in 2018, compared to 2017. Incurred losses and LAE on property insurance were \$6.8 million, or 38.6% of property insurance earned premiums, in 2018, compared to \$7.5 million, or 41.2% of property insurance earned premiums, in 2017. Underlying losses and LAE on property insurance were \$5.9 million, or 33.5% of property insurance earned premiums, in 2018, compared to \$3.9 million, or 21.5% of property insurance earned premiums, in 2017, an increase of 12.0 percentage points due primarily to higher frequency of claims and severity of losses. Catastrophe losses and LAE (excluding development) were \$0.4 million in 2018, compared to \$3.3 million in 2017. Adverse loss and LAE reserve development was \$0.5 million in 2018, compared to \$0.3 million in 2017.



## Investment Results

## Investment Income

Net Investment Income for the nine and three months ended September 30, 2018 and 2017 was:

| (Dollars in Millions)  | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Investment Income:   |                   |              |                    |              |
| Interest on Fixed Income Securities                              | \$197.4           | \$184.0      | \$70.6             | \$61.8       |
| Dividends on Equity Securities Excluding Alternative Investments | 7.0               | 7.0          | 2.5                | 2.6          |
| Alternative Investments:   |                   |              |                    |              |
| Equity Method Limited Liability Investments                      | 8.1               | 21.9         | (0.4 )             | 11.1         |
| Fair Value Option Investments                                    | —                 | 1.0          | —                  | 0.5          |
| Limited Liability Investments Included in Equity Securities      | 22.8              | 18.7         | 13.7               | 5.9          |
| Total Alternative Investments                                    | 30.9              | 41.6         | 13.3               | 17.5         |
| Short-term Investments   | 4.3               | 1.0          | 2.3                | 0.5          |
| Loans to Policyholders   | 16.5              | 15.7         | 5.5                | 4.9          |
| Real Estate  | 7.2               | 8.3          | 2.4                | 2.6          |
| Other  | 0.6               | 0.2          | 0.2                | 0.1          |
| Total Investment Income  | 263.9             | 257.8        | 96.8               | 90.0         |
| Investment Expenses:   |                   |              |                    |              |
| Real Estate  | 7.5               | 7.7          | 2.6                | 2.6          |
| Other Investment Expenses  | 6.8               | 5.5          | 2.2                | 1.5          |
| Total Investment Expenses  | 14.3              | 13.2         | 4.8                | 4.1          |
| Net Investment Income  | \$249.6           | \$244.6      | \$92.0             | \$85.9       |

Net Investment Income was \$249.6 million and \$244.6 million for the nine months ended September 30, 2018 and 2017, respectively. Net Investment Income increased by \$5.0 million in 2018 due primarily to higher level of investments in fixed income securities, partially offset by lower investment returns from Alternative Investments and lower yields on fixed income securities.

Net Investment Income was \$92.0 million and \$85.9 million for the three months ended September 30, 2018 and 2017, respectively. Net Investment Income increased by \$6.1 million in 2018 due primarily to higher level of investments in fixed maturity securities, partially offset by lower investment returns from Alternative Investments and lower yields on fixed income securities.

## Total Comprehensive Investment Gains (Losses)

The components of Total Comprehensive Investment Gains (Losses) for the nine and three months ended September 30, 2018 and 2017 were:

| (Dollars in Millions)  | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| Recognized in Condensed Consolidated Statements of Income:         |                   |              |                    |              |
| Income from Change in Fair Value of Equity Securities              | \$12.1            | \$—          | \$11.0             | \$—          |
| Gains on Sales   | 16.6              | 44.8         | 6.1                | 7.9          |
| Losses on Sales  | (6.6 )            | (0.5 )       | (2.5 )             | —            |
| Net Impairment Losses Recognized in Earnings                       | (2.3 )            | (10.5 )      | (1.8 )             | (2.9 )       |
| Net Gains on Trading Securities                                    | —                 | 0.7          | —                  | 0.2          |
| Net Gain Recognized in Condensed Consolidated Statements of Income | 19.8              | 34.5         | 12.8               | 5.2          |
| Recognized in Other Comprehensive Income (Loss)                    | (231.8 )          | 83.6         | (49.9 )            | 15.7         |
| Total Comprehensive Investment Gains (Losses)                      | \$(212.0)         | \$118.1      | \$(37.1)           | \$20.9       |





## Investment Results (continued)

## Income from Change in Fair Value of Equity Securities

The components of Income from Change in Fair Value of Equity Securities for the nine and three months ended September 30, 2018 were:

| (Dollars in Millions)                                 | Nine<br>Months<br>Ended<br>Sep 30,<br>2018 | Three<br>Months<br>Ended<br>Sep 30,<br>2018 |
|---|--|---|
| Preferred Stocks                                      | \$ (2.8 )                                  | \$ (0.2 )                                   |
| Common Stocks   | (0.1 )                                     | (0.3 )                                      |
| Other Equity Interests:                               |  |   |
| Exchange Traded Funds                                 | 9.2  | 12.5  |
| Limited Liability Companies and Limited Partnerships  | 5.8  | (1.0 )                                      |
| Total Other Equity Interests                          | 15.0                                       | 11.5  |
| Income from Change in Fair Value of Equity Securities | \$ 12.1                                    | \$ 11.0                                     |

## Net Realized Gains on Sales of Investments

The components of Net Realized Gains on Sales of Investments for the nine and three months ended September 30, 2018 and 2017 were:

| (Dollars in Millions)                      | Nine Months<br>Ended<br>Sep 30,<br>2018 |         | Three Months<br>Ended<br>Sep 30,<br>2017 |        |
|--|---|---------|--|--------|
| Fixed Maturities:                          |   |         |  |        |
| Gains on Sales                             | \$ 11.2                                 | \$ 7.3  | \$ 5.9                                   | \$ 2.4 |
| Losses on Sales                            | (6.5 )                                  | (0.4 )  | (2.5 )                                   | —      |
| Equity Securities:                         |   |         |  |        |
| Gains on Sales                             | 5.4                                     | 31.1    | 0.2                                      | 3.9    |
| Real Estate:                               |   |         |  |        |
| Gains on Sales                             | —                                       | 6.4     | —  | 1.6    |
| Other:                                     |   |         |  |        |
| Losses on Sales                            | (0.1 )                                  | (0.1 )  | —  | —      |
| Net Gains on Trading Securities            | —                                       | 0.7     | —  | 0.2    |
| Net Realized Gains on Sales of Investments | \$ 10.0                                 | \$ 45.0 | \$ 3.6                                   | \$ 8.1 |
| Gross Gains on Sales                       | \$ 16.6                                 | \$ 44.8 | \$ 6.1                                   | \$ 7.9 |
| Gross Losses on Sales                      | (6.6 )                                  | (0.5 )  | (2.5 )                                   | —      |
| Net Gains on Trading Securities            | —                                       | 0.7     | —  | 0.2    |
| Net Realized Gains on Sales of Investments | \$ 10.0                                 | \$ 45.0 | \$ 3.6                                   | \$ 8.1 |

## Investment Results (continued)

## Net Impairment Losses Recognized in Earnings

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in the fair value of an investment is other than temporary. Losses arising from other-than-temporary declines in fair values are reported in the Condensed Consolidated Statements of Income in the period that the declines are determined to be other than temporary. The components of Net Impairment Losses Recognized in Earnings in the Condensed Consolidated Statements of Income for the nine and three months ended September 30, 2018 and 2017 were:

|  | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2018      | Sep 30, 2017 | Sep 30, 2018       | Sep 30, 2017 |
| (Dollars in Millions)                        | Number            | Number       | Number             | Number       |
|  | Amount of         | Amount of    | Amount of          | Amount of    |
|  | Issuers           | Issuers      | Issuers            | Issuers      |
| Fixed Maturities                             | \$(0.5) 2         | \$(9.8 ) 8   | \$(0.2) 1          | \$(2.9 ) 3   |
| Equity Securities                            | (1.8 ) 4          | (0.7 ) 2     | (1.6 ) 2           | — —          |
| Net Impairment Losses Recognized in Earnings | \$(2.3)           | \$(10.5)     | \$(1.8)            | \$(2.9)      |

## Investment Quality and Concentrations

The Company's fixed maturity investment portfolio is comprised primarily of high-grade municipal, corporate and agency bonds. At September 30, 2018, 92% of the Company's fixed maturity investment portfolio was rated investment-grade, which the Company defines as a security issued by a high quality obligor with at least a relatively stable credit profile and where it is highly likely that all contractual payments of principal and interest will timely occur and carry a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2. Securities with a rating of 1 or 2 from the NAIC typically are rated by one of more Nationally Recognized Statistical Rating Organizations and either have a rating of AAA, AA, A or BBB from Standard & Poor's ("S&P"); a rating of Aaa, Aa, A or Baa from Moody's Investors Service ("Moody's"); or a rating of AAA, AA, A or BBB from Fitch Ratings. The following table summarizes the credit quality of the Company's fixed maturity investment portfolio at September 30, 2018 and December 31, 2017:

| NAIC Rating                           | Rating       | Sep 30, 2018           |                     | Dec 31, 2017           |                     |
|---------------------------------------|--------------|------------------------|---------------------|------------------------|---------------------|
|                                       |              | Fair Value in Millions | Percentage of Total | Fair Value in Millions | Percentage of Total |
| 1                                     | AAA, AA, A   | \$3,983.6              | 65.3 %              | \$3,481.8              | 64.6 %              |
| 2                                     | BBB          | 1,621.8                | 26.5                | 1,335.2                | 24.8                |
| 3-4                                   | BB, B        | 325.9                  | 5.3                 | 357.2                  | 6.7                 |
| 5-6                                   | CCC or Lower | 177.3                  | 2.9                 | 208.5                  | 3.9                 |
| Total Investments in Fixed Maturities |              | \$6,108.6              | 100.0 %             | \$5,382.7              | 100.0 %             |

Gross unrealized losses on the Company's investments in below-investment-grade fixed maturities were \$9.2 million and \$6.9 million at September 30, 2018 and December 31, 2017, respectively.

## Investment Quality and Concentrations (continued)

The following table summarizes the fair value of the Company's investments in governmental fixed maturities at September 30, 2018 and December 31, 2017:

| (Dollars in Millions)  | Sep 30, 2018 |                                 |   | Dec 31, 2017 |                                 |   |
|--|--------------|---------------------------------|---|--------------|---------------------------------|---|
|  | Fair Value   | Percentage of Total Investments | % | Fair Value   | Percentage of Total Investments | % |
| U.S. Government and Government Agencies and Authorities States and Political Subdivisions: | \$858.9      | 10.4                            | % | \$556.1      | 8.2                             | % |
| States   | 448.1        | 5.4                             |   | 594.0        | 8.7                             |   |
| Political Subdivisions   | 146.3        | 1.8                             |   | 171.1        | 2.5                             |   |
| Revenue Bonds  | 939.1        | 11.4                            |   | 936.7        | 13.8                            |   |
| Foreign Governments  | 5.7          | 0.1                             |   | 3.2          | —                               |   |
| Total Investments in Governmental Fixed Maturities   | \$2,398.1    | 29.1                            | % | \$2,261.1    | 33.2                            | % |

The following table summarizes the fair value of the Company's investments in non-governmental fixed maturities by industry at September 30, 2018 and December 31, 2017.

| (Dollars in Millions)                                  | Sep 30, 2018 |                                 |   | Dec 31, 2017 |                                 |   |
|--|--------------|---------------------------------|---|--------------|---------------------------------|---|
|  | Fair Value   | Percentage of Total Investments | % | Fair Value   | Percentage of Total Investments | % |
| Manufacturing  | \$1,237.2    | 15.0                            | % | \$1,168.8    | 17.2                            | % |
| Finance, Insurance and Real Estate Services            | 1,218.8      | 14.8                            |   | 780.2        | 11.5                            |   |
| Transportation, Communication and Utilities            | 439.0        | 5.3                             |   | 453.3        | 6.7                             |   |
| Mining   | 385.9        | 4.7                             |   | 353.7        | 5.2                             |   |
| Retail Trade   | 167.5        | 2.0                             |   | 163.5        | 2.4                             |   |
| Wholesale Trade  | 148.2        | 1.8                             |   | 102.6        | 1.5                             |   |
| Agriculture, Forestry and Fishing                      | 87.2         | 1.1                             |   | 81.3         | 1.2                             |   |
| Other  | 13.9         | 0.2                             |   | 14.5         | 0.2                             |   |
| Total Investments in Non-governmental Fixed Maturities | \$3,710.5    | 45.1                            | % | \$3,121.6    | 46.0                            | % |

The following table summarizes the fair value of the Company's investments in non-governmental fixed maturities by range of amount invested at September 30, 2018.

| (Dollars in Millions) | Number of Issuers | Aggregate Fair Value |
|-----------------------|-------------------|----------------------|
| Below \$5             | 481               | \$ 1,110.8           |
| \$5 - \$10            | 140               | 1,012.2              |
| \$10 - \$20           | 97                | 1,312.8              |
| \$20 - \$30           | 10                | 241.7                |
| Greater Than \$30     | 1                 | 33.0                 |
| Total                 | 729               | \$ 3,710.5           |

The Company's short-term investments primarily consist of U.S. treasury bills, money market funds and overnight interest bearing accounts. At September 30, 2018, the Company had \$539.5 million invested in U.S. treasury bills, \$124.3 million invested in money market funds which primarily invest in U.S. Treasury securities and \$24.7 million invested in overnight interest bearing accounts with one of the Company's custodial banks.

Investment Quality and Concentrations (continued)

The following table summarizes the fair value of the Company's ten largest investment exposures, excluding investments in U.S. Government and Government Agencies and Authorities and Short-term Investments, at September 30, 2018:

(Dollars  
Fair  
in  
Value  
Millions)

Percentage  
of Total  
Investments

Fixed  
Maturities:  
States  
including  
their  
Political  
Subdivisions:

| Fair Value (Millions) | Percentage of Total Investments |
|-----------------------|---------------------------------|
| \$109.7               | 1.3 %                           |
| \$100.0               | 1.0                             |
| \$101.0               | 1.0                             |
| \$102.0               | 0.9                             |
| \$103.0               | 0.8                             |
| \$104.0               | 0.7                             |
| \$105.0               | 0.7                             |

Equity  
Securities—Other  
Equity

Interests:  
Vanguard  
World  
Stock

|        |     |
|--------|-----|
| \$90.3 | 1.1 |
|--------|-----|

ETF  
iShares® Core  
MSCI  
Total  
International  
Stock

|        |     |
|--------|-----|
| \$79.1 | 1.0 |
|--------|-----|

ETF  
Vanguard  
Total  
Stock

|         |     |
|---------|-----|
| \$148.0 | 0.8 |
|---------|-----|

Market  
ETF  
Total

|         |       |
|---------|-------|
| \$770.8 | 9.3 % |
|---------|-------|

## Investments in Limited Liability Companies and Limited Partnerships

The Company owns investments in various limited liability investment companies and limited partnerships that primarily invest in mezzanine debt, hedge funds and distressed debt. As of January 1, 2018, the Company's investments in these limited liability investment companies and limited partnerships are reported either as Equity Method Limited Liability Investments, Other Equity Interests and included in Equity Securities at Fair Value, or Equity Securities at Modified Cost depending on the accounting method used to report the investment. Prior to January 1, 2018 and the Company's adoption of ASU 2016-01, the Company's investments in limited liability investment companies and limited partnerships were reported either as Equity Method Limited Liability Investments, Other Equity Interests and included in Equity Securities or Fair Value Option Investments depending on the accounting method used to report the investment. Additional information pertaining to these investments at September 30, 2018 and December 31, 2017 is presented below.

| Asset Class   | Unfunded<br>Commitment<br>Sep 30,<br>2018 | Reported Value<br>Sep 30,<br>2018 | Reported Value<br>Dec 31,<br>2017 |
|---|---|-----------------------------------|-----------------------------------|
| Reported as Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings: |   |                                   |                                   |
| Mezzanine Debt  | \$ 55.6                                   | \$ 86.9                           | \$ 73.0                           |
| Senior Debt   | 22.1                                      | 7.8                               | 4.8                               |
| Distressed Debt   | —   | 36.7                              | 47.5                              |
| Secondary Transactions  | 18.7                                      | 21.8                              | 20.6                              |
| Leveraged Buyout  | —   | 4.2                               | 3.3                               |
| Growth Equity   | —   | 5.3                               | 5.7                               |
| Other   | —   | 7.3                               | 6.1                               |
| Total Equity Method Limited Liability Investments   | 96.4                                      | 170.0                             | 161.0                             |
| Reported as Other Equity Interests at Fair Value:   |   |                                   |                                   |
| Mezzanine Debt  | 95.6                                      | 112.1                             | 102.2                             |
| Senior Debt   | 30.6                                      | 33.6                              | 35.5                              |
| Distressed Debt   | 3.0                                       | 14.7                              | 16.6                              |
| Secondary Transactions  | 10.3                                      | 9.9                               | 8.9                               |
| Hedge Fund  | —   | 22.6                              | —                                 |
| Leveraged Buyout  | 3.1                                       | 4.0                               | 6.3                               |
| Other   | 6.8                                       | 5.3                               | 33.4                              |
| Total Reported as Other Equity Interests at Fair Value  | 149.4                                     | 202.2                             | 202.9                             |
| Reported as Equity Securities at Modified Cost:   |   |                                   |                                   |
| Mezzanine Debt  | —   | 1.5                               | —                                 |
| Other   | 0.1                                       | 26.9                              | —                                 |
| Total Reported as Equity Securities at Modified Cost  | 0.1                                       | 28.4                              | —                                 |
| Reported as Fair Value Option Investments:  |   |                                   |                                   |
| Hedge Funds   | —   | —                                 | 77.5                              |
| Total Investments in Limited Liability Companies and Limited Partnerships                               | \$ 245.9                                  | \$ 400.6                          | \$ 441.4                          |

The Company expects that it will be required to fund its commitments over the next several years.

## Insurance Expenses and Interest and Other Expenses

Insurance Expenses and Interest and Other Expenses for the nine and three months ended September 30, 2018 and 2017 were:

| (Dollars in Millions)  | Nine Months              |                 | Three Months             |                 |
|--|--------------------------|-----------------|--------------------------|-----------------|
|  | Ended<br>Sep 30,<br>2018 | Sep 30,<br>2017 | Ended<br>Sep 30,<br>2018 | Sep 30,<br>2017 |
| Insurance Expenses:  |                          |                 |                          |                 |
| Commissions  | \$400.0                  | \$320.5         | \$166.6                  | \$109.6         |
| General Expenses   | 252.6                    | 148.1           | 164.0                    | 50.2            |
| Taxes, Licenses and Fees                                     | 53.4                     | 40.4            | 22.8                     | 13.8            |
| Total Costs Incurred   | 706.0                    | 509.0           | 353.4                    | 173.6           |
| Policy Acquisition Costs:                                    |                          |                 |                          |                 |
| Deferred   | (358.7 )                 | (262.3 )        | (156.1 )                 | (91.6 )         |
| Amortized  | 277.7                    | 234.6           | 98.2                     | 80.4            |
| Net Policy Acquisition Costs Amortized                       | (81.0 )                  | (27.7 )         | (57.9 )                  | (11.2 )         |
| Amortization of Insurance in Force                           | 2.3                      | 3.9             | 0.5                      | 1.3             |
| Insurance Expenses   | 627.3                    | 485.2           | 296.0                    | 163.7           |
| Interest Expense   | 29.3                     | 26.9            | 13.4                     | 7.8             |
| Other Expenses:  |                          |                 |                          |                 |
| Loss (Gain) on Cash Flow Hedge                               | —                        | 1.1             | (0.2 )                   | —               |
| Acquisition Related Transaction, Integration and Other Costs | 38.0                     | —               | 28.2                     | —               |
| Other  | 49.1                     | 31.1            | 20.3                     | 10.4            |
| Other Expenses   | 87.1                     | 32.2            | 48.3                     | 10.4            |
| Interest and Other Expenses                                  | 116.4                    | 59.1            | 61.7                     | 18.2            |
| Total Expenses   | \$743.7                  | \$544.3         | \$357.7                  | \$181.9         |

Insurance Expenses was \$627.3 million for the nine months ended September 30, 2018, compared to \$485.2 million for the same period in 2017. Insurance Expenses increased by \$142.1 million in 2018, of which \$122.2 million was due to the inclusion of Infinity. Insurance Expenses on Kemper's legacy business increased due primarily to growth in business, partially offset by cost reduction initiatives.

Insurance Expenses was \$296.0 million for the three months ended September 30, 2018, compared to \$163.7 million for the same period in 2017. Insurance Expenses increased by \$132.3 million in 2018, of which \$122.2 million was due to the inclusion of Infinity. Insurance Expenses on Kemper's legacy business increased due primarily to growth in business, partially offset by cost reduction initiatives.

Interest and Other Expenses was \$116.4 million for the nine months ended September 30, 2018, compared to \$59.1 million for the same period in 2017. Interest expense increased by \$2.4 million in 2018 due primarily to higher levels of debt outstanding. See MD&A, "Liquidity and Capital Resources," and Note 4, "Debt," to the Condensed Consolidated Financial Statements for additional discussion of debt activity. Other expenses increased by \$54.9 million in 2018 due primarily to acquisition related transaction, integration costs and other costs.

Interest and Other Expenses was \$61.7 million for the three months ended September 30, 2018, compared to \$18.2 million for the same period in 2017. Interest expense increased by \$5.6 million in 2018 due primarily to higher levels of debt outstanding. See MD&A, "Liquidity and Capital Resources," and Note 4, "Debt," to the Condensed Consolidated Financial Statements for additional discussion of debt activity. Other expenses increased by \$37.9 million in 2018 due primarily to acquisition related transaction, integration and other costs.

## Income Taxes

The federal corporate statutory income tax rate was 21% for the nine months ended September 30, 2018, compared to 35% for the same period in 2017. The Company's effective income tax rate from continuing operations differs from the federal corporate income tax rate due primarily to finalizing certain effects of the Tax Act on deferred income taxes, which were previously recorded as provisional amounts under SAB 118, tax-exempt investment income, dividends received deductions and a permanent difference between the amount of long-term equity-based equity compensation expense recognized under GAAP and the amount deductible in the computation of Federal taxable income.

The Company recorded a tax benefit of \$26.0 million for the nine and three months ended September 30, 2018 as a result of finalizing certain effects of the Tax Act on deferred income taxes, which were previously recorded as provisional amounts. The Company anticipates finalizing the remaining provisional amounts within deferred income tax assets and liabilities during the fourth quarter of 2018. See Note 9, "Income Taxes," to the Condensed Consolidated Financial Statements for additional discussion.

Tax-exempt investment income and dividends received deductions collectively were \$16.4 million for the nine months ended September 30, 2018, compared to \$21.5 million for the same period in 2017. Tax-exempt investment income and dividends received deductions collectively were \$6.5 million for the three months ended September 30, 2018, compared to \$7.8 million for the same period in 2017. The amount of expense recognized for long-term equity-based compensation expense under U.S. GAAP was \$6.1 million lower than the amount that would be deductible under the Internal Revenue Code (the "IRC") for the nine months ended September 30, 2018. The amount of expense recognized for long-term equity-based compensation expense under U.S. GAAP was \$2.1 million lower than the amount that would be deductible under the IRC for the three months ended September 30, 2018.

## Recently Issued Accounting Pronouncements

The Company has adopted all recently issued accounting pronouncements with effective dates prior to October 1, 2018. Other than the adoption of ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, as discussed in Note 1, "Basis of Presentation," to the Condensed Consolidated Financial Statements, the impact of adopting new accounting guidance was not material. With the possible exceptions of ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and ASU 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts, the Company does not expect the adoption of all other recently issued accounting pronouncements with effective dates after September 30, 2018 to have a material impact on the Company's financial statements and/or disclosures. See Note 1, "Basis of Presentation," to the Condensed Consolidated Financial Statements for additional discussion of recently adopted accounting pronouncements.

## Liquidity and Capital Resources

### Amended and Extended Credit Agreement and Term-Loan Facility

On June 8, 2018, the Company entered into an amended and extended credit agreement and term loan facility. The amended and extended credit agreement increased the borrowing capacity of the existing unsecured credit agreement to \$300.0 million and extended the maturity date to June 8, 2023. The term loan facility includes a delayed draw feature with borrowing capacity of \$250.0 million and a maturity date two years from the borrowing date.

Furthermore, the amended and extended credit agreement provides for an accordion feature whereby the Company can increase either the revolving credit or term loan borrowing capacity by \$100.0 million. On June 29, 2018, the Company borrowed \$250.0 million on the delayed draw term loan facility to finance the acquisition of Infinity. The proceeds from the term loan facility, net of debt issuance costs, were \$249.4 million. There were no outstanding borrowings at either September 30, 2018 or December 31, 2017 under the revolving credit agreement.

### Infinity Debt

Infinity's liabilities at the acquisition date included \$275.0 million principal amount, 5.0% Senior Notes due September 19, 2022 (the "2022 Senior Notes"). The 2022 Senior Notes were recorded at fair value as of the acquisition date, \$282.1 million, with the \$7.1 million premium being amortized as a reduction to interest expense over the remaining term, resulting in an effective interest rate of 4.36%.





## Liquidity and Capital Resources (continued)

## Long-term Debt

The Company has \$450.0 million of 4.35% senior notes due February 15, 2025 (the “2025 Senior Notes”) outstanding as of September 30, 2018. The Company initially issued \$250 million of the 2025 Senior Notes in February of 2015. In June of 2017, Kemper issued an additional \$200 million of its 2025 Senior Notes. The proceeds of the additional issuance were \$200.2 million, net of discount and transaction costs, for an effective yield of 4.16%. The additional notes are fungible with the initial notes issued, and together are treated as part of a single series for all purposes under the indenture governing the 2025 Senior Notes. The 2025 Senior Notes are unsecured and may be redeemed in whole at any time or in part from time to time at Kemper’s option at specified redemption prices. Kemper used the net proceeds from the additional issuances for general corporate purposes. During the fourth quarter of 2016, in anticipation of a debt issuance in 2017, the Company entered into a derivative transaction to hedge changes in the benchmark U.S. Treasury. Amortization of the effective portion of this hedging arrangement effectively increases the yield on the additional issuance of 2025 Senior Notes from 4.16% to 4.42%.

See Note 4, “Debt,” to the Condensed Consolidated Financial Statements.

## Short-term Debt

Kemper’s subsidiaries, United Insurance Company of America (“United Insurance”) and Trinity Universal Insurance Company (“Trinity”), are members of the Federal Home Loan Bank (“FHLB”) of Chicago and Dallas, respectively. As a requirement of membership in the FHLB, United Insurance and Trinity maintain a certain level of investment in FHLB stock. Total holdings of FHLB of Chicago stock were \$0.8 million and \$0.4 million at September 30, 2018 and December 31, 2017, respectively. Total holdings of FHLB of Dallas stock were \$3.3 million at September 30, 2018 and December 31, 2017.

In June of 2018, United Insurance received advances of \$55.0 million from the FHLB of Chicago and Trinity received advances of \$55.0 million from the FHLB of Dallas. The advances, which were repaid in full on July 13, 2018, were made to facilitate the funding of the acquisition of Infinity. See Note 2, “Acquisition of Business” and Note 4, “Debt,” to the Condensed Consolidated Financial Statements for additional information.

In March of 2018, United Insurance received advances of \$10.0 million from the FHLB of Chicago. The advances, which mature in one year or less, were made in connection with the start-up of the Company’s collateralized investment borrowing program. In connection with the advances, United Insurance pledged U.S. Government Agency securities with a fair value of \$15.9 million at September 30, 2018. The fair value of the collateral pledged must be maintained at certain specified levels above the borrowed amount, which can vary depending on the assets pledged. If the fair value of the collateral declines below these specified levels of the amount borrowed, United Insurance would be required to pledge additional collateral or repay outstanding borrowings. Accrued Expenses and Other Liabilities in the Condensed Consolidated Balance Sheet at September 30, 2018 includes \$10.0 million related to these advances. There were no advances from the FHLB of Chicago or the FHLB of Dallas outstanding as of December 31, 2017. See Note 4, “Debt,” to the Condensed Consolidated Financial Statements.

## Subsidiary Dividends and Capital Contributions

Various state insurance laws restrict the ability of Kemper’s insurance subsidiaries to pay dividends without regulatory approval. Such insurance laws generally restrict the amount of dividends paid in an annual period to the greater of statutory net income from the previous year or 10% of statutory capital and surplus. Kemper’s direct insurance subsidiaries paid \$130.4 million in dividends to Kemper during the first nine months of 2018. Kemper estimates that its direct insurance subsidiaries would be able to pay approximately an additional \$70.6 million in dividends to Kemper during the remainder of 2018 without prior regulatory approval.

## Acquisition of Infinity

On July 2, 2018, Kemper completed the acquisition of Infinity pursuant to the terms of the merger agreement dated February 13, 2018, with total cash, stock and equity-based compensation consideration paid to Infinity shareholders of approximately \$1.5 billion. In conjunction with closing the acquisition, Kemper issued 13,184,107 shares, with an aggregate fair value of \$982.5 million based on Kemper’s July 2, 2018 stock price of \$74.53 per share, and paid \$564.6 million in cash consideration. In addition, Kemper issued 44,010 restricted units under Kemper’s equity-based compensation plan to replace Infinity restricted shares that were outstanding immediately prior to the closing. The

aggregate fair value of such Kemper restricted units granted was \$3.3 million at July 2, 2018, of which \$1.6 million is attributed to service provided prior to the closing and included in consideration paid. The remaining amount of \$1.7 million is attributed to future service and will be recognized in

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Liquidity and Capital Resources (continued)

compensation expense primarily over a period of two years. The cash consideration was funded by cash on hand as of July 2, 2018, inclusive of \$250.0 million in borrowings under the Company's delayed draw term loan facility and \$110.0 million of Kemper subsidiary borrowings from the FHLB of Dallas and FHLB of Chicago. On July 13, 2018, Kemper subsidiaries repaid in full the \$110.0 million of FHLB borrowings, plus accrued interest. See Note 4, "Debt," to the Condensed Consolidated Financial Statements for additional information. Infinity is a national provider of auto insurance focused on serving the specialty, nonstandard segment. With approximately 2,300 employees, 10,600 independent agents and \$1.4 billion in 2017 direct written premiums, Infinity is one of the largest nonstandard auto insurers in the United States.

Dividends to Shareholders

Kemper paid a quarterly dividend to shareholders of \$0.24 per common share in the first, second and third quarters of 2018. Dividends and dividend equivalents paid were \$40.7 million for the nine months ended September 30, 2018.

Sources and Uses of Funds

Kemper directly held cash and investments totaling \$91.3 million at September 30, 2018, compared to \$197.3 million at December 31, 2017.

Primary sources available for the repayment of indebtedness, repurchases of common stock, future shareholder dividend payments and the payment of interest on Kemper's senior notes, subordinated debentures and term loan, include cash and investments directly held by Kemper, receipt of dividends from Kemper's insurance subsidiaries and borrowings under the credit agreement and from subsidiaries.

The primary sources of funds for Kemper's insurance subsidiaries are premiums, investment income and proceeds from the sales and maturity of investments, advances from the FHLBs of Dallas and Chicago, and capital contributions from Kemper. The primary uses of funds are the payment of policyholder benefits under life insurance contracts, claims under property and casualty insurance contracts and accident and health insurance contracts, the payment of commissions and general expenses, the purchase of investments and repayments of advances from the FHLBs of Dallas and Chicago. Generally, there is a time lag between when premiums are collected and when policyholder benefits and insurance claims are paid.

In 2016, the Company's Life & Health segment voluntarily began implementing a comprehensive process under which it cross-references its life insurance policies against death verification databases to identify potential situations where the beneficiaries may not have filed a claim following the death of an insured and initiate an outreach process to identify and contact beneficiaries and settle claims. The Company expects that it will take several years to complete the initial outreach process.

During periods of growth, property and casualty insurance companies typically experience positive operating cash flows and are able to invest a portion of their operating cash flows to fund future policyholder benefits and claims. During periods in which premium revenues decline, insurance companies may experience negative cash flows from operations and may need to sell investments to fund payments to policyholders and claimants. In addition, if the Company's property and casualty insurance subsidiaries experience several significant catastrophic events over a relatively short period of time, investments may have to be sold in advance of their maturity dates to fund payments, which could result in either investment gains or losses. Management believes that its property and casualty insurance subsidiaries maintain adequate levels of liquidity in the event that they were to experience several future catastrophic events over a relatively short period of time.

Net Cash Provided by Operating Activities was \$345.3 million for the nine months ended September 30, 2018, compared to \$164.5 million for the same period in 2017.

Net Cash provided by Financing Activities was \$218.5 million for the nine months ended September 30, 2018, compared to net cash used of \$193.1 million for the same period in 2017. Net proceeds from borrowing under the term loan facility provided \$249.4 million of cash for the nine months ended September 30, 2018. Net proceeds from FHLB advances provided \$10.0 million of cash for the nine months ended September 30, 2018. Kemper used \$40.7 million of cash to pay dividends for the nine months ended September 30, 2018, compared to \$37.1 million of cash used to pay dividends in the same period of 2017. The quarterly dividend rate was \$0.24 per common share for the first, second and third quarters of 2018 and each quarter of 2017.

Cash available for investment activities in total is dependent on cash flow from Operating Activities and Financing Activities and the level of cash the Company elects to maintain. Net Cash Used by Investing Activities was \$516.7 million for the nine months ended September 30, 2018, compared to Net Cash Provided by Investing Activities of \$50.5 million for the same period in 2017. Short-term investments investing activities used \$351.6 million of cash for the nine months ended September 30, 2018, compared to providing \$40.4 million of cash for the same period in 2017. Fixed Maturities investing activities provided

#### Liquidity and Capital Resources (continued)

net cash of \$613.0 million for the nine months ended September 30, 2018, compared to using \$34.1 million of cash for the same period in 2017. Equity Securities investing activities used net cash of \$157.7 million for the nine months ended September 30, 2018, compared to net cash used of \$3.2 million for the same period in 2017. Equity Method Limited Liability Investments investing activities used net cash of \$10.1 million for the nine months ended September 30, 2018, compared to net cash provided of \$21.8 million for the same period in 2017. No cash was provided or used by Fair Value Option Investments investing activities for the nine months ended September 30, 2018, compared to net cash provided of \$35.2 million for the same period in 2017. Net cash used for the acquisition of Infinity was \$560.6 million. Net cash used for the acquisition and development of software was \$53.9 million for the nine months ended September 30, 2018, compared to \$28.8 million for the same period in 2017.

#### Critical Accounting Estimates

Kemper's subsidiaries conduct their operations in two industries: property and casualty insurance and life and health insurance. Accordingly, the Company is subject to several industry-specific accounting principles under GAAP. The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The process of estimation is inherently uncertain. Accordingly, actual results could ultimately differ materially from the estimated amounts reported in a company's financial statements. Different assumptions are likely to result in different estimates of reported amounts.

The Company's critical accounting policies most sensitive to estimates include the valuation of investments, the valuation of reserves for property and casualty insurance incurred losses and LAE, the assessment of recoverability of goodwill and the valuation of pension benefit obligations. The Company's critical accounting policies are described in the MD&A included in the 2017 Annual Report. There has been no material changes to the information disclosed in the 2017 Annual Report with respect to these critical accounting estimates and the Company's critical accounting policies except for the classification and measurement of equity investments as discussed further below.

#### Equity Investments

Equity investments include common stocks, non-redeemable preferred stocks, exchange traded funds, money market mutual funds and limited liability companies and investment partnerships in which the Company's interests are deemed minor. Equity investments with readily determinable fair values are recorded at fair value on the Consolidated Balance Sheet with changes in fair value reported as Income (Loss) from Change in Fair Value of Equity Securities. Dividend income on investments in common and non-redeemable preferred stocks is recognized on the ex-dividend date. The Company holds certain equity investments without readily determinable fair values at cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transaction for the identical or a similar investment of the same issuer on the Consolidated Balance Sheet as Equity Securities at Modified Cost. Changes in carrying value of Modified Cost investments due to observable price changes are recorded as Income (Loss) from Change in Fair Value of Equity Securities.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the Company's disclosures about market risk in Item 7, "Quantitative and Qualitative Disclosures About Market Risk of Part II of the 2017 Annual Report. Accordingly, no disclosures about market risk have been made in Item 3 of this Form 10-Q.

#### Quantitative Information About Market Risk

Financial instruments subject to material market risk disclosures required by the SEC were reported on the following lines of the Company's Condensed Consolidated Balance Sheets:

- 1) Investments in Fixed Maturities;
- 2) Investments in Equity Securities;
- 3) Fair Value Option Investments; and
- 4) Debt.

Investments in Fixed Maturities and Debt are subject to material interest rate risk. The Company's Investments in Equity Securities include common and preferred stocks and, accordingly, are subject to material equity price risk and

interest rate risk, respectively. The Company's Fair Value Option Investments include hedge funds that are subject to material equity price risk.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

For purposes of this disclosure, market risk sensitive financial instruments are divided into two categories: financial instruments acquired for trading purposes and financial instruments acquired for purposes other than trading. The Company's market risk sensitive financial instruments are generally classified as held for purposes other than trading. The Company has no significant holdings of financial instruments acquired for trading purposes. The Company has no significant holdings of derivatives.

The Company measures its sensitivity to market risk by evaluating the change in its financial assets and liabilities relative to fluctuations in interest rates and equity prices. The evaluation is made using instantaneous changes in interest rates and equity prices on a static balance sheet to determine the effect such changes would have on the Company's market value at risk and the resulting pre-tax effect on Shareholders' Equity. The changes chosen represent the Company's view of adverse changes which are reasonably possible over a one-year period. The selection of the changes chosen should not be construed as the Company's prediction of future market events, but rather an illustration of the impact of such possible events.

For the interest rate sensitivity analysis presented below, the Company assumed an adverse and instantaneous increase of 100 basis points in the yield curve at both September 30, 2018 and December 31, 2017 for Investments in Fixed Maturities. Such 100 basis point increase in the yield curve may not necessarily result in a corresponding 100 basis point increase in the interest rate for all investments in fixed maturities. For example, a 100 basis point increase in the yield curve for risk-free, taxable investments in fixed maturities may not result in a 100 basis point increase for tax-exempt investments in fixed maturities. For Investments in Fixed Maturities, the Company also anticipated changes in cash flows due to changes in the likelihood that investments would be called or pre-paid prior to their contractual maturity. All other variables were held constant. For preferred stock equity securities, the Company assumed an adverse and instantaneous increase of 100 basis points in market interest rates from their levels at both September 30, 2018 and December 31, 2017. All other variables were held constant. For Debt, the Company assumed an adverse and instantaneous decrease of 100 basis points in market interest rates from their levels at both September 30, 2018 and December 31, 2017. All other variables were held constant.

The Company measured equity price sensitivity assuming an adverse and instantaneous 30% decrease in the Standard and Poor's Stock Index (the "S&P 500") from its levels at September 30, 2018 and December 31, 2017, respectively, with all other variables held constant. The Company's investments in common stock equity securities were correlated with the S&P 500 using the common stock portfolio's weighted-average beta of 1.00 and 1.00 at September 30, 2018 and December 31, 2017, respectively. Beta measures a stock's relative volatility in relation to the rest of the stock market, with the S&P 500 having a beta coefficient of 1.00. The common stock portfolio's weighted-average beta was calculated using each security's beta for the five-year periods ended September 30, 2018 and December 31, 2017, respectively, and weighted on the fair value of such securities at September 30, 2018 and December 31, 2017, respectively. For equity securities without observable market inputs, the Company assumed a beta of 1.00 at September 30, 2018 and December 31, 2017. The Company's Fair Value Option Investments were correlated with the S&P 500 using such portfolio's weighted-average beta of 0.06 at and December 31, 2017, which was calculated for each hedge fund in the portfolio and weighted on the fair value of the hedge funds.

The estimated adverse effects on the fair values of the Company's financial instruments using these assumptions were:

| (Dollars in Millions)            | Fair Value | Pro Forma Increase (Decrease) |                   |                   |
|----------------------------------|------------|-------------------------------|-------------------|-------------------|
|                                  |            | Interest Rate Risk            | Equity Price Risk | Total Market Risk |
| September 30, 2018               |            |                               |                   |                   |
| Assets:                          |            |                               |                   |                   |
| Investments in Fixed Maturities  | \$ 6,108.6 | \$(340.8)                     | \$ —              | \$ (340.8 )       |
| Investments in Equity Securities | 815.8      | (13.4 )                       | (206.2)           | (219.6 )          |
| Fair Value Option Investments    | —          | —                             | (0.7 )            | (0.7 )            |
| Liabilities:                     |            |                               |                   |                   |
| Debt                             | \$ 1,127.7 | \$—                           | \$ —              | \$ —              |
| December 31, 2017                |            |                               |                   |                   |

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Assets:

|                                  |            |           |         |             |
|----------------------------------|------------|-----------|---------|-------------|
| Investments in Fixed Maturities  | \$ 5,382.7 | \$(322.4) | \$ —    | \$ (322.4 ) |
| Investments in Equity Securities | 526.0      | (6.3 )    | (134.9) | (141.2 )    |
| Fair Value Option Investments    | 77.5       | —         | (1.4 )  | (1.4 )      |

Liabilities:

|      |          |        |      |         |
|------|----------|--------|------|---------|
| Debt | \$ 614.6 | \$30.1 | \$ — | \$ 30.1 |
|------|----------|--------|------|---------|

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Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

The market risk sensitivity analysis assumes that the composition of the Company's interest rate sensitive assets and liabilities, including, but not limited to, credit quality, and the equity price sensitive assets existing at the beginning of the period remains constant over the period being measured. It also assumes that a particular change in interest rates is uniform across the yield curve regardless of the time to maturity. Interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market interest rates. Also, any future correlation, either in the near term or the long term, between the Company's common stock equity securities portfolio and the S&P 500 may differ from the historical correlation as represented by the weighted-average historical beta of the common stock equity securities portfolio. Accordingly, the market risk sensitivity analysis may not be indicative of, is not intended to provide, and does not provide, a precise forecast of the effect of changes in market rates on the Company's income or shareholders' equity. Further, the computations do not contemplate any actions the Company may undertake in response to changes in interest rates or equity prices.

To the extent that any adverse 100 basis point change occurs in increments over a period of time instead of instantaneously, the adverse impact on fair values would be partially mitigated because some of the underlying financial instruments would have matured. For example, proceeds from any maturing assets could be reinvested and any new liabilities would be incurred at the then current interest rates.

Qualitative Information About Market Risk

Market risk is a broad term related to economic losses due to adverse changes in the fair value of a financial instrument and is inherent to all financial instruments. SEC disclosure rules focus on only one element of market risk - price risk. Price risk relates to changes in the level of prices due to changes in interest rates, equity prices, foreign exchange rates or other factors that relate to market volatility of the rate, index or price underlying the financial instrument. The Company's primary market risk exposures are to changes in interest rates and equity prices. The Company manages its interest rate exposures with respect to Investments in Fixed Maturities by investing primarily in investment-grade securities of moderate effective duration.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Company's management, with the participation of Kemper's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on such evaluation, Kemper's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by Kemper in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms, and accumulated and communicated to the Company's management, including Kemper's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls.

On July 2, 2018, Kemper completed its acquisition of Infinity, at which time Infinity and its subsidiaries became subsidiaries of Kemper. See Note 2, Acquisition of Business," to the Condensed Consolidated Financial Statements (Unaudited) in Part 1 of this Form 10-Q for further details of the transaction. The Company is currently in the process of assessing Infinity's material internal controls over financial reporting. Other than in connection with this acquisition, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## PART II - OTHER INFORMATION

Items not listed here have been omitted because they are inapplicable or the answer is negative.

## Item 1. Legal Proceedings

Information concerning pending legal proceedings is incorporated herein by reference to Note 12, "Contingencies," to the Condensed Consolidated Financial Statements in Part I of this Form 10-Q.

## Item 1A. Risk Factors

Except for the deletion in their entirety of the risk factors appearing under the heading "Risks Relating to the Infinity Merger," noted in Item 1A. of Part II of Kemper's Quarterly Report on Form 10-Q for the Quarterly Period ended March 31, 2018, there were no significant changes in the risk factors included in Item 1A. of Part I of the 2017 Annual Report,

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Information pertaining to purchases of Kemper common stock for the three months ended September 30, 2018 follows.

| Period         | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part<br>of Publicly<br>Announced<br>Plans<br>or<br>Programs<br>(1) | Maximum<br>Dollar<br>Value of<br>Shares<br>that May<br>Yet Be<br>Purchased<br>Under<br>the Plans<br>or<br>Programs<br>(Dollars<br>in<br>Millions) |
|----------------|---|---------------------------------------|--|---|
|                |   |                                       |  |   |
| July 2018      | 34,455                                    | \$ 74.53                              | —  | \$ 243.7  |
| August 2018    | —   | \$ —                                  | —  | \$ 243.7  |
| September 2018 | —   | \$ —                                  | —  | \$ 243.7  |

(1) On August 6, 2014, Kemper's Board of Directors authorized the repurchase of up to \$300 million of Kemper's common stock.

Total Number of Shares Purchased in the preceding table include 34,455 shares that were withheld to satisfy certain employee tax withholding obligations in connection with the acquisition of Infinity.

Total Number of Shares Purchased in the preceding table include 34,455 shares that were withheld to satisfy tax withholding obligations on the vesting of restricted stock awards under Kemper's long-term equity-based compensation plans during the quarter ended September 30, 2018.

#### Item 6. Exhibits

The Exhibit Index that follows has been filed as part of this report. Exhibit numbers correspond to the numbering system in Item 601 of Regulation S-K.

#### Exhibit Index

The following exhibits are either filed as a part hereof or are incorporated by reference. Exhibit numbers followed by an asterisk (\*) indicate exhibits that are management contracts or compensatory plans or arrangements.

| Exhibit Number | Exhibit Description  | Incorporated by Reference |             |                        | Filed or Furnished Herewith |
|----------------|--|---------------------------|-------------|------------------------|-----------------------------|
|                |  | Form                      | File Number | Exhibit Filing Date    |                             |
| <u>4.1</u>     | <u>Form of Senior Indenture, dated as of August 6, 2010, by and between Infinity Property and Casualty Corporation and U.S. Bank National Association, as Trustee</u>  | S-3                       | 333-168605  | 4.4 August 6, 2010     |                             |
| <u>4.2</u>     | <u>First Supplemental Indenture, dated as of September 17, 2012, by and between Infinity Property and Casualty Corporation and U.S. Bank National Association, as Trustee</u>                                      | 8-K                       | 000-50167   | 4.1 September 17, 2012 |                             |
| <u>10.1*</u>   | <u>Agreement and Plan of Merger dated as of February 13, 2018, by and among Kemper Corporation, Vulcan Sub, Inc. and Infinity Property and Casualty Corporation</u>  | 8-K                       | 001-18298   | 2.1 February 14, 2018  |                             |
| <u>31.1</u>    | <u>Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)</u>   |                           |             |                        | X                           |
| <u>31.2</u>    | <u>Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)</u>   |                           |             |                        | X                           |
| <u>32.1</u>    | <u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K)</u> |                           |             |                        | X                           |
| <u>32.2</u>    | <u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K)</u> |                           |             |                        | X                           |
| 101.1          | XBRL Instance Document   |                           |             |                        | X                           |
| 101.2          | XBRL Taxonomy Extension Schema Document  |                           |             |                        | X                           |
| 101.3          | XBRL Taxonomy Extension Calculation Linkbase Document  |                           |             |                        | X                           |
| 101.4          | XBRL Taxonomy Extension Label Linkbase Document  |                           |             |                        | X                           |
| 101.5          | XBRL Taxonomy Extension Presentation Linkbase Document   |                           |             |                        | X                           |
| 101.6          |  |                           |             |                        | X                           |

XBRL Taxonomy Extension Definition Linkbase  
Document

\* Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule will be furnished to the SEC upon request.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Kemper Corporation

Date: November 5, 2018 /S/ JOSEPH P. LACHER, JR.

Joseph P. Lacher, Jr.  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 5, 2018 /S/ JAMES J. MCKINNEY

James J. McKinney  
Senior Vice President and Chief Financial Officer (Principal Financial Officer)

Date: November 5, 2018 /S/ RICHARD ROESKE

Richard Roeske  
Vice President and Chief Accounting Officer  
(Principal Accounting Officer)