

KEMPER Corp  
Form 10-Q  
October 30, 2017

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, 2017

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.)

One East Wacker Drive, Chicago, Illinois 60601  
(Address of principal executive offices) (Zip Code)  
(312) 661-4600  
(Registrant's telephone number, including area code)

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  (Do not check if a smaller reporting company) 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

51,451,359 shares of common stock, \$0.10 par value, were outstanding as of October 27, 2017.

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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, 2016 (the “2016 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

- Outcomes of state initiatives that could result in significant changes to, or interpretations of, unclaimed property laws or significant changes in claims handling practices with respect to life insurance policies, including the requirement to proactively use death verification databases, particularly any that involve retroactive application of new requirements to existing life insurance policy contracts;
  - 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, implementing significant business initiatives, including those related to, but not limited to, expense and claims savings, consolidations, reorganizations and technology, and integrating acquired businesses;

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 may not be realized to the extent anticipated, within the anticipated time frame 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 charges related to transactions, and the delay of transactions for reasons 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 OPERATIONS

(Dollars in millions, except per share amounts)

(Unaudited)

|  | Nine Months Ended |                  | Three Months Ended |                  |
|--|-------------------|------------------|--------------------|------------------|
|  | Sep 30,<br>2017   | Sep 30,<br>2016  | Sep 30,<br>2017    | Sep 30,<br>2016  |
| <b>Revenues:</b>   |                   |                  |                    |                  |
| Earned Premiums  | \$1,744.1         | \$1,658.6        | \$598.2            | \$558.9          |
| Net Investment Income  | 244.6             | 218.4            | 85.9               | 77.7             |
| Other Income   | 2.9               | 2.2              | 1.0                | 0.8              |
| Net Realized Gains on Sales of Investments                               | 45.0              | 24.0             | 8.1                | 11.6             |
| <b>Other-than-temporary Impairment Losses:</b>                           |                   |                  |                    |                  |
| Total Other-than-temporary Impairment Losses                             | (10.7 )           | (24.3 )          | (2.9 )             | (8.3 )           |
| Portion of Losses Recognized in Other Comprehensive Income               | 0.2               | 0.3              | —                  | —                |
| Net Impairment Losses Recognized in Earnings                             | (10.5 )           | (24.0 )          | (2.9 )             | (8.3 )           |
| <b>Total Revenues</b>  | <b>2,026.1</b>    | <b>1,879.2</b>   | <b>690.3</b>       | <b>640.7</b>     |
| <b>Expenses:</b>   |                   |                  |                    |                  |
| Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses | 1,364.9           | 1,362.5          | 440.1              | 490.2            |
| Insurance Expenses   | 485.2             | 488.8            | 163.7              | 161.7            |
| Interest and Other Expenses  | 59.1              | 65.0             | 18.2               | 22.0             |
| <b>Total Expenses</b>  | <b>1,909.2</b>    | <b>1,916.3</b>   | <b>622.0</b>       | <b>673.9</b>     |
| Income (Loss) from Continuing Operations before Income Taxes             | 116.9             | (37.1 )          | 68.3               | (33.2 )          |
| Income Tax Benefit (Expense)   | (32.9 )           | 20.7             | (20.5 )            | 14.9             |
| Income (Loss) from Continuing Operations                                 | 84.0              | (16.4 )          | 47.8               | (18.3 )          |
| Income (Loss) from Discontinued Operations                               | —                 | 2.0              | (0.1 )             | 2.0              |
| <b>Net Income (Loss)</b>   | <b>\$84.0</b>     | <b>\$(14.4 )</b> | <b>\$47.7</b>      | <b>\$(16.3 )</b> |
| <b>Income (Loss) from Continuing Operations Per Unrestricted Share:</b>  |                   |                  |                    |                  |
| Basic  | \$1.63            | \$(0.31 )        | \$0.92             | \$(0.36 )        |
| Diluted  | \$1.62            | \$(0.31 )        | \$0.92             | \$(0.36 )        |
| <b>Net Income (Loss) Per Unrestricted Share:</b>                         |                   |                  |                    |                  |
| Basic  | \$1.63            | \$(0.27 )        | \$0.92             | \$(0.32 )        |
| Diluted  | \$1.62            | \$(0.27 )        | \$0.92             | \$(0.32 )        |
| 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 (LOSS)  
 (Dollars in millions)  
 (Unaudited)

|  | Nine Months<br>Ended<br>Sep 30, Sep 30,<br>2017 2016 |          | Three Months<br>Ended<br>Sep 30, Sep 30,<br>2017 2016 |          |
|--|--|----------|---|----------|
| Net Income (Loss)  | \$84.0   | \$(14.4) | \$47.7  | \$(16.3) |
| Other Comprehensive Income (Loss) Before Income Taxes:               |  |          |   |          |
| Unrealized Holding Gains (Losses)                                    | 82.8   | 217.2    | 15.6  | (8.3 )   |
| Foreign Currency Translation Adjustments                             | 0.9  | —        | 0.1   | —        |
| Decrease (Increase) in Net Unrecognized Postretirement Benefit Costs | (0.4 )   | (13.8 )  | (0.1 )  | 0.4      |
| Loss on Cash Flow Hedges   | (6.6 )   | —        | (0.1 )  | —        |
| Other Comprehensive Income (Loss) Before Income Taxes                | 76.7   | 203.4    | 15.5  | (7.9 )   |
| Other Comprehensive Income Tax Benefit (Expense)                     | (27.3 )  | (71.6 )  | (5.7 )  | 2.9      |
| Other Comprehensive Income (Loss)                                    | 49.4   | 131.8    | 9.8   | (5.0 )   |
| Total Comprehensive Income (Loss)                                    | \$133.4  | \$117.4  | \$57.5  | \$(21.3) |

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)

|   | Sep 30,<br>2017 | Dec 31,<br>2016 |
|---|-----------------|-----------------|
|   | (Unaudited)     |                 |
| Assets:   |                 |                 |
| Investments:  |                 |                 |
| Fixed Maturities at Fair Value (Amortized Cost: 2017 - \$4,876.7; 2016 - \$4,846.8)   | \$ 5,242.8      | \$5,124.9       |
| Equity Securities at Fair Value (Cost: 2017 - \$469.1; 2016 - \$434.4)  | 512.1           | 481.7           |
| Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings  | 160.1           | 175.9           |
| Fair Value Option Investments   | 77.1            | 111.4           |
| Short-term Investments at Cost which Approximates Fair Value  | 239.0           | 273.7           |
| Other Investments   | 420.0           | 439.9           |
| Total Investments   | 6,651.1         | 6,607.5         |
| Cash  | 137.6           | 115.7           |
| Receivables from Policyholders  | 374.8           | 336.5           |
| Other Receivables   | 182.4           | 198.6           |
| Deferred Policy Acquisition Costs   | 361.7           | 332.0           |
| Goodwill  | 323.0           | 323.0           |
| Current Income Tax Assets   | 0.9             | 15.5            |
| Deferred Income Tax Assets  | —               | 25.8            |
| Other Assets  | 269.5           | 255.9           |
| Total Assets  | \$ 8,301.0      | \$8,210.5       |
| Liabilities and Shareholders' Equity:   |                 |                 |
| Insurance Reserves:   |                 |                 |
| Life and Health   | \$ 3,509.8      | \$3,475.3       |
| Property and Casualty   | 968.5           | 931.4           |
| Total Insurance Reserves  | 4,478.3         | 4,406.7         |
| Unearned Premiums   | 672.0           | 618.7           |
| Deferred Income Tax Liabilities   | 11.9            | —               |
| Liabilities for Unrecognized Tax Benefits   | 6.8             | 5.1             |
| Long-term Debt, Current and Non-current, at Amortized Cost (Fair Value: 2017 - \$616.1; 2016 - \$770.9)   | 592.2           | 751.6           |
| Accrued Expenses and Other Liabilities  | 457.4           | 453.2           |
| Total Liabilities   | 6,218.6         | 6,235.3         |
| Shareholders' Equity:   |                 |                 |
| Common Stock, \$0.10 Par Value, 100 Million Shares Authorized; 51,448,024 Shares Issued and Outstanding at September 30, 2017 and 51,270,940 Shares Issued and Outstanding at December 31, 2016 | 5.1             | 5.1             |
| Paid-in Capital   | 672.1           | 660.3           |
| Retained Earnings   | 1,218.8         | 1,172.8         |
| Accumulated Other Comprehensive Income  | 186.4           | 137.0           |
| Total Shareholders' Equity  | 2,082.4         | 1,975.2         |
| Total Liabilities and Shareholders' Equity  | \$ 8,301.0      | \$8,210.5       |

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>2017      | Sep 30,<br>2016 |
| Operating Activities:   |                      |                 |
| Net Income (Loss)   | \$84.0               | \$(14.4)        |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:           |                      |                 |
| Amortization of Intangible Assets Acquired  | 3.9                  | 4.5             |
| Equity in Earnings of Equity Method Limited Liability Investments                           | (21.9 )              | (3.3 )          |
| Distribution of Accumulated Earnings of Equity Method Limited Liability Investments         | 15.9                 | 10.3            |
| Decrease (Increase) in Value of Fair Value Option Investments Reported in Investment Income | (0.9 )               | 3.9             |
| Amortization of Investment Securities and Depreciation of Investment Real Estate            | 12.8                 | 11.7            |
| Net Realized Gains on Sales of Investments  | (45.0 )              | (24.0 )         |
| Net Impairment Losses Recognized in Earnings  | 10.5                 | 24.0            |
| Depreciation of Property and Equipment  | 9.8                  | 10.5            |
| Increase in Receivables   | (27.2 )              | (23.8 )         |
| Increase in Deferred Policy Acquisition Costs   | (29.6 )              | (11.8 )         |
| Increase in Insurance Reserves  | 71.4                 | 177.6           |
| Increase in Unearned Premiums   | 53.3                 | 23.9            |
| Change in Income Taxes  | 27.4                 | (30.2 )         |
| Change in Accrued Expenses and Other Liabilities  | (1.5 )               | 2.0             |
| Other, Net  | 1.6                  | 9.6             |
| Net Cash Provided by Operating Activities   | 164.5                | 170.5           |
| Investing Activities:   |                      |                 |
| Sales, Paydowns and Maturities of Fixed Maturities  | 367.7                | 422.4           |
| Purchases of Fixed Maturities   | (401.8 )             | (539.8 )        |
| Sales of Equity Securities  | 230.3                | 107.2           |
| Purchases of Equity Securities  | (233.5 )             | (64.8 )         |
| Return of Investment of Equity Method Limited Liability Investments                         | 36.3                 | 22.6            |
| Acquisitions of Equity Method Limited Liability Investments                                 | (14.5 )              | (20.2 )         |
| Sales of Fair Value Option Investments  | 42.2                 | 50.5            |
| Purchases of Fair Value Option Investments  | (7.0 )               | (16.0 )         |
| Decrease (Increase) in Short-term Investments   | 40.4                 | (68.5 )         |
| Improvements of Investment Real Estate  | (1.3 )               | (1.8 )          |
| Sales of Investment Real Estate   | 26.2                 | 7.5             |
| Increase in Other Investments   | (1.3 )               | (3.4 )          |
| Purchases of Corporate-owned Life Insurance   | —                    | (7.5 )          |
| Acquisition and Development of Software   | (28.8 )              | (8.8 )          |
| Other, Net  | (4.4 )               | (2.0 )          |
| Net Cash Provided (Used) by Investing Activities  | 50.5                 | (122.6 )        |
| Financing Activities:   |                      |                 |
| Net Proceeds from Issuance of Long-term Debt  | 200.2                | —               |
| Repayment of Long-term Debt   | (360.0 )             | —               |
| Common Stock Repurchases  | —                    | (3.8 )          |
| Dividends and Dividend Equivalents Paid   | (37.1 )              | (36.9 )         |

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|                                       |          |         |
|---------------------------------------|----------|---------|
| Cash Exercise of Stock Options        | 3.7      | 1.2     |
| Other, Net                            | 0.1      | 1.0     |
| Net Cash Used by Financing Activities | (193.1 ) | (38.5 ) |
| Increase in Cash                      | 21.9     | 9.4     |
| Cash, Beginning of Year               | 115.7    | 161.7   |
| Cash, End of Period                   | \$137.6  | \$171.1 |

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 (“Kemper”) 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 2016 Annual Report.

Adoption of New Accounting Guidance

Guidance Adopted in 2017

The Company adopted Accounting Standard Update (“ASU”) 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, in the first quarter of 2017. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 impacts the timing of when excess tax benefits are recognized by eliminating the delay in the recognition of a tax benefit until the tax benefit is realized through a reduction to income taxes payable. The Company applied the modified retrospective transition method and recognized an increase to retained earnings of \$0.5 million as of January 1, 2017 to recognize excess tax benefits that had been previously delayed. On a prospective basis, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the Company’s Condensed Consolidated Statements of Operations. Further, the Company will continue to estimate the number of awards that are expected to vest.

The Company early adopted ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, in the first quarter of 2017. ASU 2017-08 shortens the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. No change is required for securities held at a discount, which will continue to be amortized to maturity. The Company holds a large number of debt securities for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated. As allowed under GAAP in effect prior to the issuance of ASU 2017-08, the Company already considered such estimates of future principal prepayments in the calculation of the constant effective yield necessary in applying the interest method. Accordingly, adoption of ASU 2017-08 did not have a material impact on the Company’s financial statements.

Guidance Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which revises the criteria for recognizing revenue. 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. The guidance is effective for reporting periods beginning after December 15, 2017 and is to be applied retrospectively. The guidance specifically excludes insurance contracts, lease contracts and investments from its scope. Accordingly, the Company does not expect adoption to have a material impact on net income or its financial position.

In January 2016, the FASB issued 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

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

Note 1 - Basis of Presentation (continued)

changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. 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 impairment exists, an entity is required to measure the investment at fair value. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company currently records its Investments in Equity Securities at fair value with net unrealized appreciation or depreciation reported in Accumulated Other Comprehensive Income (“AOCI”) in Shareholders’ Equity. The Company’s Investments in Equity Securities include securities with readily-determinable fair values and securities without readily-determinable fair values. Until the Company adopts ASU 2016-01 and makes its elections for Investments in Equity Securities that do not have readily-determinable fair values, it cannot determine the impact of the adoption on its consolidated balance sheet. Subsequent to adoption, ASU 2016-01 is expected to cause increased volatility in the Company’s Consolidated Statements of Operations.

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 is currently evaluating the impact of this guidance 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.

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

Note 1 - Basis of Presentation (continued)

The Company has adopted all other recently issued accounting pronouncements with effective dates prior to October 1, 2017. There were no adoptions of such accounting pronouncements in 2016 or during the nine months ended September 30, 2017 that had a material impact on the Company's Condensed Consolidated Financial Statements. With the possible exceptions of Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2016-02, Leases (Topic 842) and ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the Company does not expect the adoption of all other recently issued accounting pronouncements with effective dates after September 30, 2017 to have a material impact on the Company's financial statements and/or disclosures.

Note 2 - Investments

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at September 30, 2017 were:

| (Dollars in Millions)  | Amortized<br>Cost | Gross<br>Unrealized |          | Fair<br>Value |
|--|-------------------|---------------------|----------|---------------|
|  |                   | Gains               | Losses   |               |
| U.S. Government and Government Agencies and Authorities<br>States and Political Subdivisions | \$ 342.8          | \$21.2              | \$(4.9 ) | \$359.1       |
| Foreign Governments  | 1,615.0           | 110.8               | (2.8 )   | 1,723.0       |
| Corporate Securities:  |                   |                     |          |               |
| Bonds and Notes  | 3.1               | 0.2                 | —        | 3.3           |
| Redeemable Preferred Stocks  | 2,796.9           | 247.2               | (11.0 )  | 3,033.1       |
| Collateralized Loan Obligations  | 0.1               | —                   | —        | 0.1           |
| Other Mortgage- and Asset-backed<br>Investments in Fixed Maturities                          | 118.4             | 4.7                 | —        | 123.1         |
|  | 0.4               | 0.7                 | —        | 1.1           |
|  | \$ 4,876.7        | \$384.8             | \$(18.7) | \$5,242.8     |

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at December 31, 2016 were:

| (Dollars in Millions)  | Amortized<br>Cost | Gross<br>Unrealized |          | Fair<br>Value |
|--|-------------------|---------------------|----------|---------------|
|  |                   | Gains               | Losses   |               |
| U.S. Government and Government Agencies and Authorities<br>States and Political Subdivisions | \$ 321.2          | \$22.3              | \$(7.2 ) | \$336.3       |
| Foreign Governments  | 1,640.6           | 88.4                | (14.1 )  | 1,714.9       |
| Corporate Securities:  |                   |                     |          |               |
| Bonds and Notes  | 3.5               | —                   | (0.1 )   | 3.4           |
| Redeemable Preferred Stocks  | 2,758.9           | 209.9               | (24.0 )  | 2,944.8       |
| Collateralized Loan Obligations  | 0.5               | 0.1                 | —        | 0.6           |
| Other Mortgage- and Asset-backed<br>Investments in Fixed Maturities                          | 121.2             | 2.7                 | (1.1 )   | 122.8         |
|  | 0.9               | 1.2                 | —        | 2.1           |
|  | \$ 4,846.8        | \$324.6             | \$(46.5) | \$5,124.9     |

There were no unsettled sales of Investments in Fixed Maturities at September 30, 2017. Other Receivables included unsettled sales of Investments in Fixed Maturities of \$2.7 million at December 31, 2016. Accrued Expenses and Other Liabilities included unsettled purchases of Investments in Fixed Maturities of \$4.7 million and \$0.1 million at September 30, 2017 and December 31, 2016, respectively.



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

Note 2 - Investments (continued)

The amortized cost and estimated fair values of the Company's Investments in Fixed Maturities at September 30, 2017 by contractual maturity were:

| (Dollars in Millions)   | Amortized Cost | Fair Value |
|---|----------------|------------|
| Due in One Year or Less   | \$ 188.3       | \$ 190.8   |
| Due after One Year to Five Years  | 785.9          | 814.3      |
| Due after Five Years to Ten Years                                       | 1,632.7        | 1,710.9    |
| Due after Ten Years   | 1,988.1        | 2,234.3    |
| Mortgage- and Asset-backed Securities Not Due at a Single Maturity Date | 281.7          | 292.5      |
| Investments in Fixed Maturities   | \$ 4,876.7     | \$ 5,242.8 |

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, 2017 consisted of securities issued by the Government National Mortgage Association with a fair value of \$152.1 million, securities issued by the Federal National Mortgage Association with a fair value of \$11.2 million, securities issued by the Federal Home Loan Mortgage Corporation with a fair value of \$4.1 million and securities of other non-governmental issuers with a fair value of \$125.1 million.

Gross unrealized gains and gross unrealized losses on the Company's Investments in Equity Securities at September 30, 2017 were:

| (Dollars in Millions)                                | Cost    | Gross Unrealized |          | Fair Value |
|--|---------|------------------|----------|------------|
|  |         | Gains            | Losses   |            |
| Preferred Stocks:                                    |         |                  |          |            |
| Finance, Insurance and Real Estate                   | \$53.6  | \$5.0            | \$—      | \$ 58.6    |
| Other Industries                                     | 18.4    | 6.2              | —        | 24.6       |
| Common Stocks:                                       |         |                  |          |            |
| Finance, Insurance and Real Estate                   | 6.7     | 1.3              | (0.8 )   | 7.2        |
| Other Industries                                     | 8.9     | 5.1              | (0.2 )   | 13.8       |
| Other Equity Interests:                              |         |                  |          |            |
| Exchange Traded Funds                                | 196.7   | 8.3              | —        | 205.0      |
| Limited Liability Companies and Limited Partnerships | 184.8   | 23.6             | (5.5 )   | 202.9      |
| Investments in Equity Securities                     | \$469.1 | \$49.5           | \$(6.5 ) | \$ 512.1   |

Gross unrealized gains and gross unrealized losses on the Company's Investments in Equity Securities at December 31, 2016 were:

| (Dollars in Millions) | Cost | Gross Unrealized |        | Fair Value |
|-----------------------|------|------------------|--------|------------|
|                       |      | Gains            | Losses |            |

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Preferred Stocks:

|                                    |        |       |         |         |
|------------------------------------|--------|-------|---------|---------|
| Finance, Insurance and Real Estate | \$58.1 | \$2.3 | \$(0.8) | \$ 59.6 |
| Other Industries                   | 18.5   | 4.9   | (0.5 )  | 22.9    |

Common Stocks:

|                                    |      |     |        |      |
|------------------------------------|------|-----|--------|------|
| Finance, Insurance and Real Estate | 31.2 | 2.3 | —      | 33.5 |
| Other Industries                   | 7.2  | 4.6 | (0.1 ) | 11.7 |

Other Equity Interests:

|  |         |        |         |          |
|--|---------|--------|---------|----------|
| Exchange Traded Funds                                | 136.1   | 9.6    | (1.3 )  | 144.4    |
| Limited Liability Companies and Limited Partnerships | 183.3   | 29.2   | (2.9 )  | 209.6    |
| Investments in Equity Securities                     | \$434.4 | \$52.9 | \$(5.6) | \$ 481.7 |

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

Note 2 - Investments (continued)

There were no unsettled sales of Investments in Equity Securities at September 30, 2017. Other Receivables included unsettled sales of Investments in Equity Securities of \$0.2 million at December 31, 2016. There were no unsettled purchases of Investments in Equity Securities at either September 30, 2017 or December 31, 2016.

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at September 30, 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 | \$67.4       | \$ (2.1 )         | \$41.2       | \$ (2.8 )         | \$108.6    | \$ (4.9 )         |
| States and Political Subdivisions                       | 169.3        | (2.1 )            | 28.9         | (0.7 )            | 198.2      | (2.8 )            |
| Corporate Securities:                                   |              |                   |              |                   |            |                   |
| Bonds and Notes   | 292.7        | (6.7 )            | 96.2         | (4.3 )            | 388.9      | (11.0 )           |
| Collateralized Loan Obligations                         | 2.0          | —                 | 2.4          | —                 | 4.4        | —                 |
| Total Fixed Maturities                                  | 531.4        | (10.9 )           | 168.7        | (7.8 )            | 700.1      | (18.7 )           |
| Equity Securities:                                      |              |                   |              |                   |            |                   |
| Preferred Stocks:                                       |              |                   |              |                   |            |                   |
| Finance, Insurance and Real Estate                      | —            | —                 | 0.2          | —                 | 0.2        | —                 |
| Other Industries  | 0.1          | —                 | 0.2          | —                 | 0.3        | —                 |
| Common Stocks:  |              |                   |              |                   |            |                   |
| Finance, Insurance and Real Estate                      | 2.2          | (0.8 )            | —            | —                 | 2.2        | (0.8 )            |
| Other Industries  | 0.2          | (0.2 )            | 0.5          | —                 | 0.7        | (0.2 )            |
| Other Equity Interests:                                 |              |                   |              |                   |            |                   |
| Limited Liability Companies and Limited Partnerships    | 46.3         | (1.9 )            | 32.1         | (3.6 )            | 78.4       | (5.5 )            |
| Total Equity Securities                                 | 48.8         | (2.9 )            | 33.0         | (3.6 )            | 81.8       | (6.5 )            |
| Total   | \$580.2      | \$ (13.8 )        | \$201.7      | \$ (11.4 )        | \$781.9    | \$ (25.2 )        |

The Company regularly reviews its 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 investments that are determined to be other than temporary are reported as losses in the Condensed Consolidated Statements of Operations in the periods when such determinations are made.

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 2 - Investments (continued)

Unrealized losses on fixed maturities, which the Company has determined to be temporary at September 30, 2017, were \$18.7 million, of which \$7.8 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, 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 September 30, 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 \$12.0 million and below-investment-grade fixed maturity investments comprised \$6.7 million of the unrealized losses on investments in fixed maturities at September 30, 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 September 30, 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 it recovered the amortized cost of such investments, which may be at maturity. Based on the Company's evaluation at September 30, 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 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.

With respect to Investments in Equity Securities, the Company concluded that the unrealized losses on its investments in preferred and common stocks at September 30, 2017 were temporary based on various factors, including the relative short length and magnitude of the losses and overall market volatility. The Company's investments in other equity interests include investments in limited liability companies and limited partnerships that primarily invest in mezzanine debt, distressed debt and secondary transactions. By the nature of their underlying investments, the Company believes that some of its investments in the limited liability companies and limited partnerships exhibit debt-like characteristics which, among other factors, the Company also considers when evaluating these investments for impairment. Based on evaluations of the factors in the preceding paragraph, the Company concluded that the declines in the fair values of the Company's investments in equity securities presented in the preceding table were temporary at September 30, 2017.

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

Note 2 - Investments (continued)

An aging of unrealized losses on the Company's Investments in Fixed Maturities and Equity Securities at December 31, 2016 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 |
| <b>Fixed Maturities:</b>                                |                     |                   |                     |                   |                  |                   |
| U.S. Government and Government Agencies and Authorities | \$117.7             | \$ (7.2 )         | \$1.1               | \$ —              | \$118.8          | \$ (7.2 )         |
| States and Political Subdivisions                       | 432.7               | (14.1 )           | 0.3                 | —                 | 433.0            | (14.1 )           |
| Foreign Governments                                     | 2.1                 | (0.1 )            | —                   | —                 | 2.1              | (0.1 )            |
| <b>Corporate Securities:</b>                            |                     |                   |                     |                   |                  |                   |
| Bonds and Notes   | 663.3               | (16.6 )           | 107.3               | (7.4 )            | 770.6            | (24.0 )           |
| Collateralized Loan Obligations                         | 19.9                | (0.7 )            | 21.4                | (0.4 )            | 41.3             | (1.1 )            |
| <b>Total Fixed Maturities</b>                           | <b>1,235.7</b>      | <b>(38.7 )</b>    | <b>130.1</b>        | <b>(7.8 )</b>     | <b>1,365.8</b>   | <b>(46.5 )</b>    |
| <b>Equity Securities:</b>                               |                     |                   |                     |                   |                  |                   |
| <b>Preferred Stocks:</b>                                |                     |                   |                     |                   |                  |                   |
| Finance, Insurance and Real Estate                      | 15.6                | (0.5 )            | 7.3                 | (0.3 )            | 22.9             | (0.8 )            |
| Other Industries  | 5.3                 | (0.5 )            | —                   | —                 | 5.3              | (0.5 )            |
| <b>Common Stocks:</b>                                   |                     |                   |                     |                   |                  |                   |
| Finance, Insurance and Real Estate                      | 2.8                 | —                 | —                   | —                 | 2.8              | —                 |
| Other Industries  | 0.6                 | (0.1 )            | 0.5                 | —                 | 1.1              | (0.1 )            |
| <b>Other Equity Interests:</b>                          |                     |                   |                     |                   |                  |                   |
| Exchange Traded Funds                                   | —                   | —                 | 18.6                | (1.3 )            | 18.6             | (1.3 )            |
| Limited Liability Companies and Limited Partnerships    | 13.9                | (0.7 )            | 33.8                | (2.2 )            | 47.7             | (2.9 )            |
| <b>Total Equity Securities</b>                          | <b>38.2</b>         | <b>(1.8 )</b>     | <b>60.2</b>         | <b>(3.8 )</b>     | <b>98.4</b>      | <b>(5.6 )</b>     |
| <b>Total</b>  | <b>\$1,273.9</b>    | <b>\$ (40.5 )</b> | <b>\$190.3</b>      | <b>\$ (11.6 )</b> | <b>\$1,464.2</b> | <b>\$ (52.1 )</b> |

Unrealized losses on fixed maturities, which the Company has determined to be temporary at December 31, 2016, were \$46.5 million, of which \$7.8 million was related to fixed maturities that were in an unrealized loss position for 12 months or longer. There were \$0.1 million unrealized losses at December 31, 2016 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, 2016 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 \$33.8 million and below-investment-grade fixed maturity investments comprised \$12.7 million of the unrealized losses on investments in fixed maturities at December 31, 2016. For below-investment-grade fixed maturity investments in an unrealized loss position, the unrealized loss amount, on average, was approximately 5% of the amortized cost basis of the investment. At December 31, 2016, 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, 2016 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.

With respect to Investments in Equity Securities, the Company concluded that the unrealized losses on its investments at December 31, 2016 were temporary based on various factors, including the relative short length and magnitude of the losses and overall market volatility, as well as, the debt-like characteristics of investments in certain other equity interests.

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

Note 2 - Investments (continued)

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.

| (Dollars in Millions)   | Nine Months Ended |              | Three Months Ended |              |
|---|-------------------|--------------|--------------------|--------------|
|   | Sep 30, 2017      | Sep 30, 2016 | Sep 30, 2017       | Sep 30, 2016 |
| Cumulative Balance of Pre-tax Credit Losses Recognized in Retained Earnings at Beginning of Period                            | \$1.4             | \$ 5.1       | \$2.4              | \$ 4.2       |
| Pre-tax Credit Losses on Fixed Maturities without Pre-tax Credit Losses Included in Cumulative Balance at Beginning of Period | 1.2               | 2.7          | —                  | —            |
| Reductions for Change in Impairment Status:   |                   |              |                    |              |
| From Status of Credit Loss to Status of Intent-to-sell or Required-to-sell  | —                 | (6.3 )       | —                  | (2.7 )       |
| 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                                  | \$2.3             | \$ 1.5       | \$2.3              | \$ 1.5       |

Net Investment Income for the nine and three months ended September 30, 2017 and 2016 was:

| (Dollars in Millions)  | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2017      | Sep 30, 2016 | Sep 30, 2017       | Sep 30, 2016 |
| Investment Income (Loss):  |                   |              |                    |              |
| Interest on Fixed Income Securities                              | \$184.0           | \$181.2      | \$61.8             | \$61.4       |
| Dividends on Equity Securities Excluding Alternative Investments | 7.0               | 9.0          | 2.6                | 2.7          |
| Alternative Investments:   |                   |              |                    |              |
| Equity Method Limited Liability Investments                      | 21.9              | 3.7          | 11.1               | 5.2          |
| Fair Value Option Investments                                    | 1.0               | (3.9 )       | 0.5                | (1.4 )       |
| Limited Liability Investments Included in Equity Securities      | 18.7              | 16.6         | 5.9                | 5.7          |
| Total Alternative Investments                                    | 41.6              | 16.4         | 17.5               | 9.5          |
| Short-term Investments   | 1.0               | 0.4          | 0.5                | 0.2          |
| Loans to Policyholders   | 15.7              | 16.1         | 4.9                | 5.4          |
| Real Estate  | 8.3               | 8.9          | 2.6                | 3.0          |
| Other  | 0.2               | —            | 0.1                | —            |
| Total Investment Income  | 257.8             | 232.0        | 90.0               | 82.2         |
| Investment Expenses:   |                   |              |                    |              |
| Real Estate  | 7.7               | 8.4          | 2.6                | 2.9          |
| Other Investment Expenses  | 5.5               | 5.2          | 1.5                | 1.6          |
| Total Investment Expenses  | 13.2              | 13.6         | 4.1                | 4.5          |
| Net Investment Income  | \$244.6           | \$218.4      | \$85.9             | \$77.7       |

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

Note 2 - Investments (continued)

Gross gains and losses on sales of investments in fixed maturities and equity securities for the nine and three months ended September 30, 2017 and 2016 were:

|                       | Nine Months<br>Ended |                 | Three<br>Months<br>Ended |                 |
|-----------------------|----------------------|-----------------|--------------------------|-----------------|
| (Dollars in Millions) | Sep 30,<br>2017      | Sep 30,<br>2016 | Sep 30,<br>2017          | Sep 30,<br>2016 |
| Fixed Maturities:     |                      |                 |                          |                 |
| Gains on Sales        | \$7.3                | \$14.1          | \$2.4                    | \$2.7           |
| Losses on Sales       | (0.4)                | (1.1)           | —                        | (0.8)           |
| Equity Securities:    |                      |                 |                          |                 |
| Gains on Sales        | 31.1                 | 9.8             | 3.9                      | 9.3             |
| Losses on Sales       | —                    | (0.1)           | —                        | —               |

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, 2017 is limited to the total carrying value of \$160.1 million. In addition, the Company had outstanding commitments totaling approximately \$82.5 million to fund Equity Method Limited Liability Investments at September 30, 2017.

The carrying values of the Company's Other Investments at September 30, 2017 and December 31, 2016 were:

| (Dollars in Millions)                      | Sep 30, Dec 31, |         |
|--|-----------------|---------|
|  | 2017            | 2016    |
| Loans to Policyholders at Unpaid Principal | \$295.5         | \$294.2 |
| Real Estate at Depreciated Cost            | 118.1           | 140.2   |
| Trading Securities at Fair Value           | 6.3             | 5.3     |
| Other                                      | 0.1             | 0.2     |
| Total                                      | \$420.0         | \$439.9 |



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

Note 3 - Property and Casualty Insurance Reserves

Property and casualty insurance reserve activity for the nine months ended September 30, 2017 and 2016 was:

|  | Nine Months<br>Ended |                 |
|--|----------------------|-----------------|
| (Dollars in Millions)  | Sep 30,<br>2017      | Sep 30,<br>2016 |
| Property and Casualty Insurance Reserves:  |                      |                 |
| Gross of Reinsurance and Indemnification at Beginning of Year  | \$931.4              | \$862.8         |
| Less Reinsurance and Indemnification Recoverables at Beginning of Year                                 | 50.2                 | 52.0            |
| Property and Casualty Insurance Reserves - Net of Reinsurance and Indemnification at Beginning of Year | 881.2                | 810.8           |
| Incurred Losses and LAE Related to:  |                      |                 |
| Current Year:  |                      |                 |
| Continuing Operations  | 1,072.0              | 1,031.1         |
| Prior Years:   |                      |                 |
| Continuing Operations  | 19.7                 | (17.7 )         |
| Discontinued Operations  | —                    | (3.3 )          |
| Total Incurred Losses and LAE Related to Prior Years   | 19.7                 | (21.0 )         |
| Total Incurred Losses and LAE  | 1,091.7              | 1,010.1         |
| Paid Losses and LAE Related to:  |                      |                 |
| Current Year:  |                      |                 |
| Continuing Operations  | 600.7                | 583.2           |
| Prior Years:   |                      |                 |
| Continuing Operations  | 443.6                | 360.8           |
| Discontinued Operations  | 3.0                  | 5.3             |
| Total Paid Losses and LAE Related to Prior Years   | 446.6                | 366.1           |
| Total Paid Losses and LAE  | 1,047.3              | 949.3           |
| Property and Casualty Insurance Reserves - Net of Reinsurance and Indemnification at End of Period     | 925.6                | 871.6           |
| Plus Reinsurance and Indemnification Recoverables at End of Period                                     | 42.9                 | 49.1            |
| Property and Casualty Insurance Reserves - Gross of Reinsurance and Indemnification at End of Period   | \$968.5              | \$920.7         |

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

Note 3 - Property and Casualty Insurance Reserves (continued)

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, 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 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.

For the nine months ended September 30, 2016, the Company reduced its property and casualty insurance reserves by \$21.0 million to recognize favorable development of loss and LAE reserves from prior accident years. Personal lines insurance loss and LAE reserves developed favorably by \$17.7 million, and commercial lines insurance loss and LAE reserves developed favorably by \$3.3 million. The commercial lines insurance loss and LAE reserve development included no development from continuing operations and favorable development of \$3.3 million from discontinued operations. Personal automobile insurance loss and LAE reserves developed adversely by \$7.3 million due primarily to the emergence of loss patterns that were worse than expected for liability insurance for the 2015 accident year. Homeowners insurance loss and LAE reserves developed favorably by \$18.1 million due primarily to \$14.3 million of favorable development on catastrophes primarily for the 2015 and 2014 accident years. Other personal lines loss and LAE reserves developed favorably by \$6.9 million due primarily to the emergence of more favorable loss patterns than expected for the 2015, 2014, 2013 and 2012 accident years.

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.

Subsequent Events

In early October 2017, a series of wildfires began burning in California. The Company expects that the catastrophe losses and loss adjustment expenses that it has incurred from these wildfires in the fourth quarter will be significant and have the potential to trigger recoveries under the Company's catastrophe reinsurance program. The Company has not completed a full evaluation of its exposure to these wildfires, including potential reinsurance recoveries.

Accordingly, the Company does not currently have an estimate of the ultimate loss related to these wildfires.

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

Note 4 - Debt

The Company designates debt obligations as either short-term or long-term based on maturity date at issuance. Total amortized cost of Long-term Debt, Current and Non-current, outstanding at September 30, 2017 and December 31, 2016 was:

| (Dollars in Millions)                                      | Sep 30,<br>2017 | Dec 31,<br>2016 |
|--|-----------------|-----------------|
| Senior Notes:  |                 |                 |
| 6.00% Senior Notes due May 15, 2017                        | \$—             | \$ 359.8        |
| 4.35% Senior Notes due February 15, 2025                   | 448.1           | 247.7           |
| 7.375% Subordinated Debentures due February 27, 2054       | 144.1           | 144.1           |
| Total Long-term Debt, Current and Non-current, Outstanding | \$ 592.2        | \$ 751.6        |

There were no outstanding borrowings at either September 30, 2017 or December 31, 2016 under Kemper's \$225.0 million, unsecured, revolving credit agreement which expires June 2, 2020.

Kemper's subsidiaries, Trinity Universal Insurance Company ("Trinity") and United Insurance Company of America ("United Insurance"), are members of the Federal Home Loan Bank ("FHLB") of Dallas and Chicago, respectively. There were no advances from the FHLB of Dallas or Chicago outstanding at either September 30, 2017 or December 31, 2016.

On February 24, 2015, Kemper issued \$250 million of its 4.350% Senior Notes due February 15, 2025 (the "2025 Senior Notes"). On June 12, 2017, Kemper issued an additional \$200 million of its 2025 Senior Notes. The net 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 is using the net proceeds from the additional issuance for general corporate purposes.

During the fourth quarter of 2016, in anticipation of a debt issuance in the second quarter of 2017 and for risk management purposes, the Company entered into a derivative transaction to hedge the risk of changes in the debt cash flows attributable to changes in the benchmark U.S. Treasury interest rate during the period leading up to the probable debt issuance ("Treasury Lock"). The Treasury Lock was formally designated as a cash flow hedge at inception and qualified for hedge accounting treatment. In the second quarter of 2017, the Company de-designated a portion of the cash flow hedge because the anticipated principal issuance was less than the notional amount of the Treasury Lock and recorded a pre-tax charge of \$1.1 million in Other Expenses. The effective portion of the loss on the derivative instrument upon discontinuance was \$4.5 million and is reported as a component of Other Comprehensive Income before Income Taxes. Beginning with the additional issuance of the 2025 Senior Notes described in the preceding paragraph, such loss is being amortized into earnings and reported in Interest Expense in the same periods that the hedged items affect earnings. Amortization, reported in Interest Expense, was \$0.1 million for the nine and three months ended September 30, 2017. The Company expects to reclassify \$0.4 million of net losses on derivative instruments from AOCI to earnings for the twelve months ended September 30, 2018 as interest expense on the debt is recognized. The Treasury Lock was in a gain position of \$1.6 million at December 31, 2016 and, accordingly, such gain has been included in Other Assets in the Condensed Consolidated Balance Sheet at such date.

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. Interest Expense, including facility fees, accretion of discount and amortization of issuance costs, was \$33.4 million and \$11.1 million for the nine and three months ended September 30, 2016, respectively. Interest paid, including facility fees, was \$30.5 million and \$8.5 million for the nine and three months ended September 30, 2016,

respectively.

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

Note 5 - Income (Loss) from Continuing Operations Per Unrestricted Share

The Company's awards of restricted stock contain rights to receive non-forfeitable dividends and participate in the undistributed earnings with common shareholders. The Company's awards of restricted stock units and deferred stock units also contain 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 (Loss) from Continuing Operations Per Unrestricted Share and Diluted Income (Loss) from Continuing Operations Per Unrestricted Share for the nine and three months ended September 30, 2017 and 2016 is presented below.

|  | Nine Months<br>Ended<br>Sep 30<br>2017 |          | Three Months<br>Ended<br>Sep 30<br>2016 |          |
|--|--|----------|---|----------|
| (Dollars in Millions)  |  |          |   |          |
| Income (Loss) from Continuing Operations   | \$84.0                                 | \$(16.4) | \$47.8                                  | \$(18.3) |
| Less Income (Loss) from Continuing Operations Attributed to Participating Awards         | 0.6                                    | (0.3)    | 0.4                                     | (0.1)    |
| Income (Loss) from Continuing Operations Attributed to Unrestricted Shares               | 83.4                                   | (16.1)   | 47.4                                    | (18.2)   |
| Dilutive Effect on Income of Equity-based Compensation Equivalent Shares                 | —                                      | —        | —                                       | —        |
| Diluted Income (Loss) from Continuing Operations Attributed to Unrestricted Shares       | \$83.4                                 | \$(16.1) | \$47.4                                  | \$(18.2) |
| (Number of Shares in Thousands)  |  |          |   |          |
| Weighted-average Unrestricted Shares Outstanding   | 51,308                                 | 51,140.6 | 51,366                                  | 51,122.5 |
| Equity-based Compensation Equivalent Shares  | 171.6                                  | —        | 199.6                                   | —        |
| Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution | 51,480                                 | 51,140.6 | 51,566                                  | 51,122.5 |
| (Per Unrestricted Share in Whole Dollars)  |  |          |   |          |
| Basic Income (Loss) from Continuing Operations Per Unrestricted Share                    | \$1.63                                 | \$(0.31) | \$0.92                                  | \$(0.36) |
| Diluted Income (Loss) from Continuing Operations Per Unrestricted Share                  | \$1.62                                 | \$(0.31) | \$0.92                                  | \$(0.36) |

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, 2017 and 2016 because the effect of inclusion would be anti-dilutive is presented below.

|  | Nine Months<br>Ended<br>Sep 30<br>2017 |         | Three Months<br>Ended<br>Sep 30<br>2016 |         |
|--|--|---------|---|---------|
| (Number of Shares in Thousands)  |  |         |   |         |
| Equity-based Compensation Equivalent Shares  | 459.7                                  | 1,195.2 | 382.1                                   | 1,009.5 |
| Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution | 459.7                                  | 1,195.2 | 382.1                                   | 1,009.5 |

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

Note 6 - 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, 2017 and 2016 were:

| (Dollars in Millions)   | Nine Months              |                 | Three Months             |                 |
|---|--------------------------|-----------------|--------------------------|-----------------|
|   | Ended<br>Sep 30,<br>2017 | Sep 30,<br>2016 | Ended<br>Sep 30,<br>2017 | Sep 30,<br>2016 |
| Other Comprehensive Income (Loss) Before Income Taxes:  |                          |                 |                          |                 |
| Unrealized Holding Gains Arising During the Period Before Reclassification Adjustment                 | \$ 110.5                 | \$ 215.9        | \$ 19.2                  | \$ (5.4 )       |
| Reclassification Adjustment for Amounts Included in Net Income  | (27.7 )                  | 1.3             | (3.6 )                   | (2.9 )          |
| Unrealized Holding Gains  | 82.8                     | 217.2           | 15.6                     | (8.3 )          |
| Foreign Currency Translation Adjustments Arising During the Period Before Reclassification Adjustment | 0.9                      | —               | 0.1                      | —               |
| Reclassification Adjustment for Amounts Included in Net Income  | —                        | —               | —                        | —               |
| Foreign Currency Translation Adjustments  | 0.9                      | —               | 0.1                      | —               |
| Net Unrecognized Postretirement Benefit Costs Arising During the Period                               | —                        | (19.5 )         | —                        | —               |
| Reclassification Adjustments for Amounts Included in Net Income:                                      |                          |                 |                          |                 |
| Curtailed Cost Recognized   | —                        | 1.0             | —                        | —               |
| Amortization of Net Unrecognized Postretirement Benefit Costs   | (0.4 )                   | 4.7             | (0.1 )                   | 0.4             |
| Total Reclassification Adjustments for Amounts Included in Net Income                                 | (0.4 )                   | 5.7             | (0.1 )                   | 0.4             |
| Net Unrecognized Postretirement Benefit Costs   | (0.4 )                   | (13.8 )         | (0.1 )                   | 0.4             |
| Loss on Cash Flow Hedges During the Period Before Reclassification Adjustment                         | (7.9 )                   | —               | (0.3 )                   | —               |
| Reclassification Adjustment for Amounts Included in Net Income  | 1.3                      | —               | 0.2                      | —               |
| Loss on Cash Flow Hedges  | (6.6 )                   | —               | (0.1 )                   | —               |
| Other Comprehensive Income (Loss) Before Income Taxes   | \$ 76.7                  | \$ 203.4        | \$ 15.5                  | \$ (7.9 )       |

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

Note 6 - Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (continued)  
The components of Other Comprehensive Income Tax Benefit (Expense) for the nine and three months ended  
September 30, 2017 and 2016 were:

| (Dollars in Millions)   | Nine Months<br>Ended |                 | Three Months<br>Ended |                 |
|---|----------------------|-----------------|-----------------------|-----------------|
|   | Sep 30,<br>2017      | Sep 30,<br>2016 | Sep 30,<br>2017       | Sep 30,<br>2016 |
| Other Comprehensive Income Tax Benefit (Expense):   |                      |                 |                       |                 |
| Unrealized Holding Gains and Losses Arising During the Period Before<br>Reclassification Adjustment   | \$(39.1)             | \$(76.0)        | \$(7.0)               | \$ 2.0          |
| Reclassification Adjustment for Amounts Included in Net Income<br>Unrealized Holding Gains  | 9.7                  | (0.4 )          | 1.3                   | 1.1             |
| Foreign Currency Translation Adjustments Arising During the Period Before<br>Reclassification Adjustment  | (29.4 )              | (76.4 )         | (5.7 )                | 3.1             |
| Reclassification Adjustment for Amounts Included in Net Income<br>Foreign Currency Translation Adjustments                                      | (0.4 )               | —               | (0.1 )                | —               |
| Net Unrecognized Postretirement Benefit Costs Arising During the Period<br>Reclassification Adjustments for Amounts Included in Net Income:     | —                    | —               | —                     | —               |
| Curtailed Loss Recognized   | —                    | (0.4 )          | —                     | —               |
| Amortization of Net Unrecognized Postretirement Benefit Costs   | 0.2                  | (1.7 )          | 0.1                   | (0.2 )          |
| Total Reclassification Adjustments for Amounts Included in Net Income   | 0.2                  | (2.1 )          | 0.1                   | (0.2 )          |
| Net Unrecognized Postretirement Benefit Costs   | 0.2                  | 4.8             | 0.1                   | (0.2 )          |
| Loss on Cash Flow Hedges During the Period Before Reclassification Adjustment<br>Reclassification Adjustment for Amounts Included in Net Income | 2.7                  | —               | —                     | —               |
| Loss on Cash Flow Hedges  | (0.4 )               | —               | —                     | —               |
| Other Comprehensive Income Tax Benefit (Expense)  | 2.3                  | —               | —                     | —               |
|   | \$(27.3)             | \$(71.6)        | \$(5.7)               | \$ 2.9          |

The components of AOCI at September 30, 2017 and December 31, 2016 were:

| (Dollars in Millions)   | Sep 30,<br>2017 | Dec 31,<br>2016 |
|---|-----------------|-----------------|
| Net Unrealized Gains on Investments, Net of Income Taxes:                       |                 |                 |
| Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings | \$(0.1 )        | \$0.1           |
| Other Net Unrealized Gains on Investments                                       | 265.3           | 211.7           |
| Foreign Currency Translation Adjustments, Net of Income Taxes                   | (0.4 )          | (0.9 )          |
| Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes              | (75.1 )         | (74.9 )         |
| Gain (Loss) on Cash Flow Hedges, Net of Income Taxes                            | (3.3 )          | 1.0             |
| Accumulated Other Comprehensive Income  | \$186.4         | \$137.0         |

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

Note 6 - 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 Operations for the nine and three months ended September 30, 2017 and 2016:

| (Dollars in Millions)   | Nine Months<br>Ended<br>Sep 30, 2017 |          | Three Months<br>Ended<br>Sep 30, 2016 |        |
|---|--------------------------------------|----------|---------------------------------------|--------|
| Reclassification of AOCI from Net Unrealized Gains on Investments to:       |                                      |          |                                       |        |
| Net Realized Gains on Sales of Investments                                  | \$38.2                               | \$22.7   | \$6.5                                 | \$11.2 |
| Net Impairment Losses Recognized in Earnings                                | (10.5 )                              | (24.0 )  | (2.9 )                                | (8.3 ) |
| Total Before Income Taxes   | 27.7                                 | (1.3 )   | 3.6                                   | 2.9    |
| Income Tax Benefit (Expense)  | (9.7 )                               | 0.4      | (1.3 )                                | (1.1 ) |
| Reclassification from AOCI, Net of Income Taxes                             | 18.0                                 | (0.9 )   | 2.3                                   | 1.8    |
| Reclassification of AOCI from Unrecognized Postretirement Benefit Costs to: |                                      |          |                                       |        |
| Interest and Other Expenses   | 0.4                                  | (5.7 )   | 0.1                                   | (0.4 ) |
| Income Tax Benefit (Expense)  | (0.2 )                               | 2.1      | (0.1 )                                | 0.2    |
| Reclassification from AOCI, Net of Income Taxes                             | 0.2                                  | (3.6 )   | —                                     | (0.2 ) |
| Reclassification of AOCI from Loss on Cash Flow Hedges to:                  |                                      |          |                                       |        |
| Interest and Other Expenses   | (1.3 )                               | —        | (0.2 )                                | —      |
| Income Tax Benefit  | 0.4                                  | —        | —                                     | —      |
| Reclassification from AOCI, Net of Income Taxes                             | (0.9 )                               | —        | (0.2 )                                | —      |
| Total Reclassification from AOCI to Net Income (Loss)                       | \$17.3                               | \$(4.5 ) | \$2.1                                 | \$1.6  |

Note 7 - Changes in Shareholders' Equity

Changes in Shareholders' Equity for the nine months ended September 30, 2017 were:

| (Dollars in Millions, Except Per Share Amounts)                            | Total<br>Shareholders'<br>Equity |
|--|----------------------------------|
| Shareholders' Equity at Beginning of Year as Reported                      | \$ 1,975.2                       |
| Cumulative Effect of Adoption of New Accounting Standard                   | 0.5                              |
| Shareholders' Equity at Beginning of Year as Adjusted                      | 1,975.7                          |
| Net Income   | 84.0                             |
| Other Comprehensive Income   | 49.4                             |
| Total Comprehensive Income   | 133.4                            |
| Cash Dividends and Dividend Equivalents to Shareholders (\$0.72 per share) | (37.1 )                          |
| Equity-based Compensation Cost   | 8.7                              |
| Equity-based Awards, Net of Shares Exchanged                               | 1.7                              |
| Shareholders' Equity at End of Period                                      | \$ 2,082.4                       |



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

Note 8 - Income Taxes

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, 2017 and December 31, 2016 include \$6.2 million and \$4.6 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 \$0.5 million and \$0.5 million at September 30, 2017 and December 31, 2016, respectively.

Income taxes paid, net of refunds received, were \$5.5 million for the nine months ended September 30, 2017. Income taxes paid were \$10.4 million for the nine months ended September 30, 2016.

Note 9 - 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 Expense (Benefit) for the Pension Plan for the nine and three months ended September 30, 2017 and 2016 were:

| (Dollars in Millions)                                      | Nine Months |         | Three Months |         |
|--|-------------|---------|--------------|---------|
|  | Ended       | Ended   | Ended        | Ended   |
|  | Sep 30,     | Sep 30, | Sep 30,      | Sep 30, |
|  | 2017        | 2016    | 2017         | 2016    |
| Service Cost Earned  | \$—         | \$ 4.8  | \$—          | \$—     |
| Interest Cost on Projected Benefit Obligation              | 15.4        | 15.2    | 5.1          | 4.8     |
| Expected Return on Plan Assets                             | (23.2)      | (24.5)  | (7.7)        | (8.3)   |
| Amortization of Accumulated Net Unrecognized Pension Costs | 2.0         | 5.8     | 0.7          | 0.9     |
| Curtailement Gain  | —           | (0.3)   | —            | —       |
| Total Pension Expense (Benefit) Recognized                 | \$(5.8)     | \$ 1.0  | \$(1.9)      | \$(2.6) |

The Company also sponsors an other postretirement benefit ("OPEB") plan that provides medical, dental and/or life insurance benefits to approximately 475 retired and 200 active employees (the "OPEB Plan"). The components of OPEB Benefit for the OPEB Plan for the nine and three months ended September 30, 2017 and 2016 were:

| (Dollars in Millions)  | Nine Months |         | Three Months |         |
|--|-------------|---------|--------------|---------|
|  | Ended       | Ended   | Ended        | Ended   |
|  | Sep 30,     | Sep 30, | Sep 30,      | Sep 30, |
|  | 2017        | 2016    | 2017         | 2016    |
| Service Cost Earned  | \$0.1       | \$ 0.1  | —            | 0.1     |
| Interest Cost on Accumulated Postretirement Benefit Obligation | 0.3         | 0.6     | 0.1          | 0.2     |
| Amortization of Prior Service Credit                           | (1.0)       | —       | (0.3)        | —       |
| Amortization of Accumulated Net Unrecognized Gain              | (1.4)       | (1.1)   | (0.5)        | (0.4)   |
| Total OPEB Benefit   | \$(2.0)     | \$(0.4) | \$(0.7)      | \$(0.1) |

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

Note 10 - 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, 2017 and 2016 were:

| (Dollars in Millions)                          | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2017      | Sep 30, 2016 | Sep 30, 2017       | Sep 30, 2016 |
| Personal Automobile                            | \$1,012.8         | \$927.4      | \$353.0            | \$313.8      |
| Homeowners                                     | 199.6             | 204.2        | 66.7               | 68.5         |
| Other Personal Property and Casualty Insurance | 87.0              | 89.9         | 28.9               | 29.9         |
| Commercial Automobile                          | 38.5              | 40.2         | 13.1               | 13.3         |
| Life   | 285.6             | 285.7        | 94.5               | 95.8         |
| Accident and Health                            | 120.6             | 111.2        | 42.0               | 37.6         |
| Total Earned Premiums                          | \$1,744.1         | \$1,658.6    | \$598.2            | \$558.9      |

Segment Revenues, including a reconciliation to Total Revenues, for the nine and three months ended September 30, 2017 and 2016 were:

| (Dollars in Millions)                        | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2017      | Sep 30, 2016 | Sep 30, 2017       | Sep 30, 2016 |
| Revenues:                                    |                   |              |                    |              |
| Property & Casualty Insurance:               |                   |              |                    |              |
| Earned Premiums                              | \$1,283.1         | \$1,205.7    | \$443.5            | \$406.9      |
| Net Investment Income                        | 72.5              | 52.0         | 27.8               | 20.4         |
| Other Income                                 | 0.9               | 0.4          | 0.4                | 0.1          |
| Total Property & Casualty Insurance          | 1,356.5           | 1,258.1      | 471.7              | 427.4        |
| Life & Health Insurance:                     |                   |              |                    |              |
| Earned Premiums                              | 461.0             | 452.9        | 154.7              | 152.0        |
| Net Investment Income                        | 163.8             | 159.6        | 55.9               | 54.5         |
| Other Income                                 | 1.9               | 1.9          | 0.7                | 0.7          |
| Total Life & Health Insurance                | 626.7             | 614.4        | 211.3              | 207.2        |
| Total Segment Revenues                       | 1,983.2           | 1,872.5      | 683.0              | 634.6        |
| Net Realized Gains on Sales of Investments   | 45.0              | 24.0         | 8.1                | 11.6         |
| Net Impairment Losses Recognized in Earnings | (10.5)            | (24.0)       | (2.9)              | (8.3)        |
| Other  | 8.4               | 6.7          | 2.1                | 2.8          |
| Total Revenues                               | \$2,026.1         | \$1,879.2    | \$690.3            | \$640.7      |



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

Note 10 - Business Segments (continued)

Segment Operating Profit (Loss), including a reconciliation to Income (Loss) from Continuing Operations before Income Taxes, for the nine and three months ended September 30, 2017 and 2016 was:

| (Dollars in Millions)  | Nine Months |          | Three Months |          |
|--|-------------|----------|--------------|----------|
|  | Ended       | Ended    | Ended        | Ended    |
|  | Sep 30,     | Sep 30,  | Sep 30,      | Sep 30,  |
|  | 2017        | 2016     | 2017         | 2016     |
| Segment Operating Profit (Loss):                             |             |          |              |          |
| Property & Casualty Insurance                                | \$(2.2 )    | \$(24.4) | \$30.8       | \$15.6   |
| Life & Health Insurance                                      | 99.8        | 10.6     | 36.0         | (45.7 )  |
| Total Segment Operating Profit (Loss)                        | 97.6        | (13.8 )  | 66.8         | (30.1 )  |
| Corporate and Other Operating Loss                           | (15.2 )     | (23.3 )  | (3.7 )       | (6.4 )   |
| Total Operating Profit (Loss)                                | 82.4        | (37.1 )  | 63.1         | (36.5 )  |
| Net Realized Gains on Sales of Investments                   | 45.0        | 24.0     | 8.1          | 11.6     |
| Net Impairment Losses Recognized in Earnings                 | (10.5 )     | (24.0 )  | (2.9 )       | (8.3 )   |
| Income (Loss) from Continuing Operations before Income Taxes | \$116.9     | \$(37.1) | \$68.3       | \$(33.2) |

Segment Net Operating Income (Loss), including a reconciliation to Income (Loss) from Continuing Operations, for the nine and three months ended September 30, 2017 and 2016 was:

| (Dollars in Millions)                        | Nine Months |          | Three Months |          |
|--|-------------|----------|--------------|----------|
|  | Ended       | Ended    | Ended        | Ended    |
|  | Sep 30,     | Sep 30,  | Sep 30,      | Sep 30,  |
|  | 2017        | 2016     | 2017         | 2016     |
| Segment Net Operating Income (Loss):         |             |          |              |          |
| Property & Casualty Insurance                | \$5.7       | \$(9.9 ) | \$22.9       | \$12.1   |
| Life & Health Insurance                      | 65.5        | 7.3      | 23.5         | (29.4 )  |
| Total Segment Net Operating Income (Loss)    | 71.2        | (2.6 )   | 46.4         | (17.3 )  |
| Corporate and Other Net Operating Loss       | (9.7 )      | (13.8 )  | (2.0 )       | (3.1 )   |
| Consolidated Net Operating Income (Loss)     | 61.5        | (16.4 )  | 44.4         | (20.4 )  |
| Net Income (Loss) From:                      |             |          |              |          |
| Net Realized Gains on Sales of Investments   | 29.3        | 15.6     | 5.3          | 7.5      |
| Net Impairment Losses Recognized in Earnings | (6.8 )      | (15.6 )  | (1.9 )       | (5.4 )   |
| Income (Loss) from Continuing Operations     | \$84.0      | \$(16.4) | \$47.8       | \$(18.3) |

Note 11 - Fair Value Measurements

The Company classifies its investments in Fixed Maturities and Equity Securities as available for sale and reports these investments at fair value. The Company has elected the fair value option method of accounting for investments in certain hedge funds and, accordingly, reports these investments at fair value. The Company classifies certain investments in mutual funds included in Other Investments as trading securities and reports these investments at fair value. The Company has a derivative instrument that is classified as a cash flow hedge and reported at fair value in Accrued Expenses and Other Liabilities at September 30, 2017.

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

Note 11 - Fair Value Measurements (continued)

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 and liabilities measured at fair value in the Company's Condensed Consolidated Balance Sheet at September 30, 2017 is summarized below.

| (Dollars in Millions)   | Fair Value Measurements   |  |  |                                      | Total<br>Fair Value |
|---|---|--|--|--------------------------------------|---------------------|
|   | Quoted<br>in Active<br>Markets<br>for Identifiable<br>Inputs<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Measured<br>at Net<br>Asset<br>Value |                     |
| <b>Fixed Maturities:</b>  |   |  |  |                                      |                     |
| U.S. Government and Government Agencies and Authorities States and Political Subdivisions | \$ 117.1  | \$ 242.0   | \$ —   | \$ —                                 | \$ 359.1            |
| Foreign Governments   | —   | 1,721.6  | 1.4  | —                                    | 1,723.0             |
| Corporate Securities:   | —   | 3.3  | —  | —                                    | 3.3                 |
| Bonds and Notes   | —   | 2,645.7  | 387.4  | —                                    | 3,033.1             |
| Redeemable Preferred Stocks   | —   | —  | 0.1  | —                                    | 0.1                 |
| Collateralized Loan Obligations   | —   | 29.6   | 93.5   | —                                    | 123.1               |
| Other Mortgage- and Asset-backed  | —   | 1.1  | —  | —                                    | 1.1                 |
| Total Investments in Fixed Maturities   | 117.1   | 4,643.3  | 482.4  | —                                    | 5,242.8             |
| <b>Equity Securities:</b>   |   |  |  |                                      |                     |
| <b>Preferred Stocks:</b>  |   |  |  |                                      |                     |
| Finance, Insurance and Real Estate  | —   | 58.6   | —  | —                                    | 58.6                |
| Other Industries  | —   | 12.2   | 12.4   | —                                    | 24.6                |
| <b>Common Stocks:</b>   |   |  |  |                                      |                     |
| Finance, Insurance and Real Estate  | 7.2   | —  | —  | —                                    | 7.2                 |
| Other Industries  | 0.6   | 0.5  | 12.7   | —                                    | 13.8                |
| <b>Other Equity Interests:</b>  |   |  |  |                                      |                     |
| Exchange Traded Funds   | 205.0   | —  | —  | —                                    | 205.0               |
| Limited Liability Companies and Limited Partnerships                                      | —   | —  | 34.1   | 168.8                                | 202.9               |
| Total Investments in Equity Securities  | 212.8   | 71.3   | 59.2   | 168.8                                | 512.1               |
| <b>Fair Value Option Investments:</b>   |   |  |  |                                      |                     |
| Limited Liability Companies and Limited Partnerships Hedge Funds                          | —   | —  | —  | 77.1                                 | 77.1                |
| <b>Other Investments:</b>   |   |  |  |                                      |                     |
| Trading Securities  | 6.3   | —  | —  | —                                    | 6.3                 |
| <b>Other Liabilities:</b>   |   |  |  |                                      |                     |
| Derivative Instrument Classified as Cash Flow Hedge                                       | —   | (0.7 )   | —  | —                                    | (0.7 )              |
| Total   | \$ 336.2  | \$ 4,713.9                                       | \$ 541.6   | \$ 245.9                             | \$ 5,837.6          |

At September 30, 2017, the Company had unfunded commitments to invest an additional \$133.0 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 11 - Fair Value Measurements (continued)

The valuation of assets measured at fair value in the Company's Condensed Consolidated Balance Sheet at December 31, 2016 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 | \$ 119.5   | \$ 216.8                                | \$ —                                      | \$ —                        | \$ 336.3            |
| Foreign Governments   | —  | 1,711.1                                 | 3.8                                       | —                           | 1,714.9             |
| Corporate Securities:   |  |   |   |                             |                     |
| Bonds and Notes   | —  | 3.4                                     | —   | —                           | 3.4                 |
| Redeemable Preferred Stocks   | —  | 2,541.6                                 | 403.2                                     | —                           | 2,944.8             |
| Collateralized Loan Obligations   | —  | —                                       | 0.6                                       | —                           | 0.6                 |
| Other Mortgage- and Asset-backed  | —  | 19.3                                    | 103.5                                     | —                           | 122.8               |
| Total Investments in Fixed Maturities   | 119.5  | 4,494.3                                 | 511.1                                     | —                           | 5,124.9             |
| Equity Securities:  |  |   |   |                             |                     |
| Preferred Stocks:   |  |   |   |                             |                     |
| Finance, Insurance and Real Estate  | —  | 59.6                                    | —   | —                           | 59.6                |
| Other Industries  | —  | 11.4                                    | 11.5                                      | —                           | 22.9                |
| Common Stocks:  |  |   |   |                             |                     |
| Finance, Insurance and Real Estate  | 26.4   | —                                       | 7.1                                       | —                           | 33.5                |
| Other Industries  | 0.4  | 0.2                                     | 11.1                                      | —                           | 11.7                |
| Other Equity Interests:   |  |   |   |                             |                     |
| Exchange Traded Funds   | 144.4  | —                                       | —   | —                           | 144.4               |
| Limited Liability Companies and Limited Partnerships                                      | —  | —                                       | 40.9                                      | 168.7                       | 209.6               |
| Total Investments in Equity Securities  | 171.2  | 71.2                                    | 70.6                                      | 168.7                       | 481.7               |
| Fair Value Option Investments:  |  |   |   |                             |                     |
| Limited Liability Companies and Limited Partnership Hedge Funds                           | —  | —                                       | —   | 111.4                       | 111.4               |
| Other Investments:  |  |   |   |                             |                     |
| Trading Securities  | 5.3  | —                                       | —   | —                           | 5.3                 |
| Other Assets:   |  |   |   |                             |                     |
| Derivative Instrument Classified as Cash Flow Hedge                                       | —  | 1.6                                     | —   | —                           | 1.6                 |
| Total   | \$296.0  | \$ 4,567.1                              | \$ 581.7                                  | \$ 280.1                    | \$ 5,724.9          |

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 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





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

Note 11 - Fair Value Measurements (continued)

agencies. The Company's investments in Equity Securities 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, 2017.

| (Dollars in Millions)           | Unobservable Input | Total Fair Value | Range of Unobservable Inputs | Weighted-average Yield |
|---------------------------------|--------------------|------------------|------------------------------|------------------------|
| Investment-grade                | Market Yield       | \$ 93.0          | 2.4 % - 6.4 %                | 3.6 %                  |
| Non-investment-grade:           |                    |                  |                              |                        |
| Senior Debt                     | Market Yield       | 161.1            | 4.1 - 14.9                   | 9.9                    |
| Junior Debt                     | Market Yield       | 119.2            | 6.6 - 27.2                   | 13.1                   |
| Collateralized Loan Obligations | Market Yield       | 93.5             | 4.0 - 9.3                    | 7.0                    |

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|  |         |          |
|--|---------|----------|
| Other  | Various | 15.6     |
| Total Level 3 Fixed Maturity Investments in Corporate Securities |         | \$ 482.4 |

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

Note 11 - 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, 2016.

| (Dollars in Millions)  | Unobservable Input | Total Fair Value | Range of Unobservable Inputs | Weighted-average Yield |
|--|--------------------|------------------|------------------------------|------------------------|
| Investment-grade   | Market Yield       | \$ 106.1         | 2.7 % - 5.1 %                | 3.8 %                  |
| Non-investment-grade:  |                    |                  |                              |                        |
| Senior Debt  | Market Yield       | 142.2            | 4.8 - 14.0                   | 9.6                    |
| Junior Debt  | Market Yield       | 143.3            | 9.5 - 20.0                   | 13.0                   |
| Collateralized Loan Obligations                                  | Market Yield       | 103.5            | 3.7 - 9.9                    | 6.3                    |
| Other Debt   | Various            | 16.0             |                              |                        |
| Total Level 3 Fixed Maturity Investments in Corporate Securities |                    | \$ 511.1         |                              |                        |

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.

The Company's other investments that are classified as Level 3 primarily consist of Limited Liability Companies and Limited Partnerships, but also certain Preferred Stocks and Common Stocks. The Company either uses valuations provided by third party fund managers or third party appraisers, or that are generated internally. These valuations typically employ various valuation techniques commonly used in the industry, including earnings multiples based on comparable public securities, industry-specific non-earnings based multiples, market yields based on comparable public securities and discounted cash flow models.

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           |                        | Total   |
|--|---------------------------|-----------------------------------|-----------------------------|---------------------------------|-----------------------------|------------------------|---------|
|  | Corporate Bonds and Notes | States and Political Sub-division | Redeemable Preferred Stocks | Collateralized Loan Obligations | Preferred and Common Stocks | Other Equity Interests |         |
| 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 Operations | (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 |



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

Note 11 - 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, 2017 is presented below.

| (Dollars in Millions)   | Fixed Maturities                   |   |                                   | Equity Securities                     |                                      |                              | Total   |
|---|------------------------------------|---|-----------------------------------|---------------------------------------|--------------------------------------|------------------------------|---------|
|   | Corporate<br>Bonds<br>and<br>Notes | States<br>and<br>Political<br>Sub-<br>divisions | Redeemable<br>Preferred<br>Stocks | Collateralized<br>Loan<br>Obligations | Preferred<br>and<br>Common<br>Stocks | Other<br>Equity<br>Interests |         |
| 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<br>of Operations | (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 |

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.

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

Note 11 - 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, 2016 is presented below.

| (Dollars in Millions)                                      | Fixed Maturities                         |                                |                                   |                                       | Equity Securities                         |                                      |                              | Total   |
|--|--|--------------------------------|-----------------------------------|---------------------------------------|---|--------------------------------------|------------------------------|---------|
|  | States<br>Corporate<br>Bonds<br>and Note | Political<br>Sub-<br>divisions | Redeemable<br>Preferred<br>Stocks | Collateralized<br>Loan<br>Obligations | Other<br>Mortgage<br>and Asset-<br>backed | Preferred<br>and<br>Common<br>Stocks | Other<br>Equity<br>Interests |         |
| Balance at Beginning of Period                             | \$436.3                                  | \$ —                           | \$ 3.8                            | \$ 87.3                               | \$ 3.8                                    | \$30.0                               | \$45.6                       | \$606.8 |
| Total Gains (Losses):                                      |  |                                |                                   |                                       |   |                                      |                              |         |
| Included in Condensed Consolidated Statement of Operations | (15.8 )                                  | —                              | —                                 | (0.2 )                                | 0.4                                       | 0.5                                  | (0.7 )                       | (15.8 ) |
| Included in Other Comprehensive Income (Loss)              | 2.4                                      | —                              | —                                 | 3.0                                   | (0.4 )                                    | 3.5                                  | (3.4 )                       | 5.1     |
| Purchases  | 148.3                                    | —                              | —                                 | 33.2                                  | —   | 0.2                                  | 2.1                          | 183.8   |
| Settlements  | (34.9 )                                  | —                              | (2.9 )                            | —                                     | (3.0 )                                    | —                                    | —                            | (40.8 ) |
| Sales  | (79.3 )                                  | —                              | —                                 | (1.9 )                                | —   | (3.2 )                               | (4.6 )                       | (89.0 ) |
| Transfers into Level 3                                     | —  | 4.1                            | —                                 | —                                     | —   | —                                    | —                            | 4.1     |
| Transfers out of Level 3                                   | (15.0 )                                  | —                              | —                                 | (10.1 )                               | (0.8 )                                    | —                                    | —                            | (25.9 ) |
| Balance at End of Period                                   | \$442.0                                  | \$ 4.1                         | \$ 0.9                            | \$ 111.3                              | \$ —                                      | \$31.0                               | \$39.0                       | \$628.3 |

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, 2016 is presented below.

| (Dollars in Millions)                                      | Fixed Maturities                         |                                |                                   |                                       | Equity Securities                         |                                      |                              | Total   |
|--|--|--------------------------------|-----------------------------------|---------------------------------------|---|--------------------------------------|------------------------------|---------|
|  | States<br>Corporate<br>Bonds<br>and Note | Political<br>Sub-<br>divisions | Redeemable<br>Preferred<br>Stocks | Collateralized<br>Loan<br>Obligations | Other<br>Mortgage<br>and Asset-<br>backed | Preferred<br>and<br>Common<br>Stocks | Other<br>Equity<br>Interests |         |
| Balance at Beginning of Period                             | \$459.4                                  | \$ —                           | \$ 2.9                            | \$ 102.2                              | \$ 3.7                                    | \$31.4                               | \$47.2                       | \$646.8 |
| Total Gains (Losses):                                      |  |                                |                                   |                                       |   |                                      |                              |         |
| Included in Condensed Consolidated Statement of Operations | (7.0 )                                   | —                              | —                                 | 0.1                                   | 0.4                                       | 1.4                                  | —                            | (5.1 )  |
| Included in Other Comprehensive Income (Loss)              | (0.9 )                                   | —                              | 0.4                               | 5.2                                   | (0.4 )                                    | 1.0                                  | (6.2 )                       | (0.9 )  |
| Purchases  | 60.1                                     | —                              | —                                 | 13.9                                  | —   | 0.1                                  | 0.1                          | 74.2    |
| Settlements  | (20.6 )                                  | —                              | (2.4 )                            | —                                     | (2.9 )                                    | —                                    | —                            | (25.9 ) |
| Sales  | (34.0 )                                  | —                              | —                                 | —                                     | —   | (2.9 )                               | (2.1 )                       | (39.0 ) |
| Transfers into Level 3                                     | —  | 4.1                            | —                                 | —                                     | —   | —                                    | —                            | 4.1     |
| Transfers out of Level 3                                   | (15.0 )                                  | —                              | —                                 | (10.1 )                               | (0.8 )                                    | —                                    | —                            | (25.9 ) |
| Balance at End of Period                                   | \$442.0                                  | \$ 4.1                         | \$ 0.9                            | \$ 111.3                              | \$ —                                      | \$31.0                               | \$39.0                       | \$628.3 |

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 or Levels 1 and 3 for the nine and three months ended September 30, 2016. Transfers

into or out of Level 3 for the nine and three months ended September 30, 2016 were due to changes in the availability of market observable inputs.

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

Note 11 - Fair Value Measurements (continued)

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. The fair value of Short-term Investments is estimated using inputs that are considered either Level 1 or Level 2 measurements.

Note 12 - 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 several years there have been an array of initiatives that seek, in various ways, 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 the third quarter of 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 a vendor 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. The vendor denied KCSI's claims and filed a counterclaim. In April 2017, the parties participated in an evidentiary hearing before a AAA-appointed arbitrator. Subsequently, the parties submitted post-hearing briefs, held closing arguments, and submitted proposed awards to the arbitrator. On October 2, 2017, the arbitrator issued a partial final award (the "Partial Final Award") in favor of KCSI. Pursuant to the material portions of the Partial Final Award: (i) KCSI's claim that the vendor had breached the Agreements was granted; (ii) the vendor's counterclaim and affirmative defenses were denied; (iii) KCSI was awarded direct damages of \$84.3 million; and (iv) KCSI is entitled to pre-judgment interest in an amount to be calculated at an annual rate of 9% pursuant to applicable law. Under the Partial Final Award, KCSI is also entitled to submit a petition seeking an award of certain costs and expenses of the arbitration. On October 11, 2017, KCSI submitted to the arbitrator a supplemental petition seeking pre-judgment interest and an award for certain costs and expenses. There is presently no schedule set for issuance of the final award.

The arbitrator's decision on the vendor's liability for breach and the damages for that breach is final, subject to challenge by the vendor on any grounds available under applicable law. On October 10, 2017, KCSI filed a motion to confirm the arbitration award in the United States District Court for the Northern District of Texas seeking confirmation and enforcement of the Partial Final Award. KCSI intends to amend its motion to confirm the arbitration award with respect to the final award to be rendered by the arbitrator that may include some or all of the requested attorneys' fees, costs and pre-judgment interest.



The Company cannot make any assurance as to the final amount that will actually be awarded or when it will be collected. The Partial Final Award and the final award are treated as gain contingencies for accounting purposes and, accordingly, are not recognized in these Condensed Consolidated Financial Statements.

KEMPER CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 13 - Related Parties

Mr. Christopher B. Sarofim, a director of Kemper, is Vice Chairman and a member of the board of directors of Fayed Sarofim & Co. ("FS&C"), a registered investment advisory firm. The Company's defined benefit pension plan had \$160.4 million in assets managed by FS&C at September 30, 2017 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 \$0.6 million and \$0.3 million for the nine months ended September 30, 2017 and 2016, 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.

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

## Summary of Results

Net Income was \$84.0 million (\$1.63 per unrestricted common share) for the nine months ended September 30, 2017, compared to Net Loss of \$14.4 million (\$0.27 per unrestricted common share) for the same period in 2016. Income from Continuing Operations was \$84.0 million (\$1.63 per unrestricted common share) for the nine months ended September 30, 2017, compared to Loss from Continuing Operations of \$16.4 million (\$0.31 per unrestricted common share) for the same period in 2016.

Net Income was \$47.7 million (\$0.92 per unrestricted common share) for the three months ended September 30, 2017, compared to Net Loss of \$16.3 million (\$0.32 per unrestricted common share) for the same period in 2016. Income from Continuing Operations was \$47.8 million (\$0.92 per unrestricted common share) for the three months ended September 30, 2017, compared to Loss from Continuing Operations of \$18.3 million (\$0.36 per unrestricted common share) for the same period in 2016.

A reconciliation of Segment Net Operating Income (Loss) to Consolidated Net Operating Income (Loss) (a non-GAAP financial measure) and to Net Income (Loss) for the nine and three months ended September 30, 2017 and 2016 is presented below.

| (Dollars in Millions)                        | Nine Months Ended |              |                     | Three Months Ended |              |                     |
|--|-------------------|--------------|---------------------|--------------------|--------------|---------------------|
|  | Sep 30, 2017      | Sep 30, 2016 | Increase (Decrease) | Sep 30, 2017       | Sep 30, 2016 | Increase (Decrease) |
| Segment Net Operating Income (Loss):         |                   |              |                     |                    |              |                     |
| Property & Casualty Insurance                | \$5.7             | \$(9.9)      | \$ 15.6             | \$22.9             | \$12.1       | \$ 10.8             |
| Life & Health Insurance                      | 65.5              | 7.3          | 58.2                | 23.5               | (29.4)       | 52.9                |
| Total Segment Net Operating Income (Loss)    | 71.2              | (2.6)        | 73.8                | 46.4               | (17.3)       | 63.7                |
| Corporate and Other Net Operating Loss       | (9.7)             | (13.8)       | 4.1                 | (2.0)              | (3.1)        | 1.1                 |
| Consolidated Net Operating Income (Loss)     | 61.5              | (16.4)       | 77.9                | 44.4               | (20.4)       | 64.8                |
| Net Income (Loss) From:                      |                   |              |                     |                    |              |                     |
| Net Realized Gains on Sales of Investments   | 29.3              | 15.6         | 13.7                | 5.3                | 7.5          | (2.2)               |
| Net Impairment Losses Recognized in Earnings | (6.8)             | (15.6)       | 8.8                 | (1.9)              | (5.4)        | 3.5                 |
| Income (Loss) from Continuing Operations     | 84.0              | (16.4)       | 100.4               | 47.8               | (18.3)       | 66.1                |
| Income (Loss) from Discontinued Operations   | —                 | 2.0          | (2.0)               | (0.1)              | 2.0          | (2.1)               |
| Net Income (Loss)                            | \$84.0            | \$(14.4)     | \$ 98.4             | \$47.7             | \$(16.3)     | \$ 64.0             |

## Net Income

Net Income increased by \$98.4 million for the nine months ended September 30, 2017, compared to the same period in 2016. In the Property & Casualty Insurance segment, segment net operating results improved by \$15.6 million due primarily to lower underlying losses and LAE as a percentage of earned premiums, particularly in the Company's nonstandard automobile insurance business, including both its Alliance United Insurance Company ("Alliance United") business, acquired in April 2015, as well as the Company's legacy book, lower insurance expenses as a percentage of earned premiums and higher net investment income from alternative investments, partially offset by an unfavorable change in loss and LAE reserve development and higher incurred catastrophe losses and LAE (excluding reserve development). 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 \$58.2 million due primarily to a \$50.5 million after-tax charge in the third quarter of 2016 to recognize the impact of using death verification databases in the Company's operations, including to determine its incurred but not reported ("IBNR") liability for unpaid claims and claims adjustment expenses for life insurance products and, to a lesser extent, higher net investment income and higher earned premiums. See MD&A, "Life & Health Insurance," for discussion of the segment's results. The Company's results were positively impacted in 2017, compared to 2016, by higher net realized gains on sales of investments and lower net impairment losses recognized in earnings. See MD&A, "Investment Results," for additional discussion. The Company's results were also positively impacted in 2017, compared to 2016, by lower interest and other expenses. See MD&A, "Insurance Expenses and Interest and Other Expenses," for additional discussion.



## Summary of Results (continued)

Net Income increased by \$64.0 million for the three months ended September 30, 2017, compared to the same period in 2016. In the Property & Casualty Insurance segment, segment net operating results improved by \$10.8 million due primarily to lower underlying losses and LAE as a percentage of earned premiums, higher net investment income from alternative investments and lower insurance expenses as a percentage of earned premiums, partially offset by higher incurred catastrophe losses and LAE (excluding reserve development). 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 \$52.9 million due primarily to the \$50.5 million after-tax charge in 2016 noted in the previous paragraph. See MD&A, “Life & Health Insurance,” for discussion of the segment’s results. The Company’s results were also positively impacted in 2017, compared to 2016, by lower interest expense and lower net impairment losses recognized in earnings, partially offset by lower net realized gains on sales of investments. See MD&A, “Insurance Expenses and Interest and Other Expenses,” and “Investment Results,” for additional discussion.

## Revenues

Earned Premiums were \$1,744.1 million for the nine months ended September 30, 2017, compared to \$1,658.6 million for the same period in 2016, an increase of \$85.5 million. Earned Premiums for the nine months ended September 30, 2017 increased by \$77.4 million and \$8.1 million in the Property & Casualty Insurance segment and Life & Health Insurance segment, respectively. 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 \$598.2 million for the three months ended September 30, 2017, compared to \$558.9 million for the same period in 2016, an increase of \$39.3 million. Earned Premiums for the three months ended September 30, 2017 increased by \$36.6 million and \$2.7 million in the Property & Casualty Insurance segment and Life & Health Insurance segment, respectively. 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 \$26.2 million for the nine months ended September 30, 2017, compared to the same period in 2016, due primarily to a higher rate of return from Alternative Investments and, to a lesser extent, a higher level of investments in fixed income securities, partially offset by a lower level of Alternative Investments and lower yields on fixed income securities. Net investment income from Alternative Investments, which consist of Equity Method Limited Liability Investments, Fair Value Option Investments and other limited liability investments included in Equity Securities, increased by \$25.2 million. Alternative investment income from Equity Method Limited Liability Investments, Fair Value Option Investments and other limited liabilities investments included in Equity Securities increased by \$18.2 million, \$4.9 million and \$2.1 million, respectively, for the nine months ended September 30, 2017, compared to the same period in 2016.

Net Investment Income increased by \$8.2 million for the three months ended September 30, 2017, compared to the same period in 2016, due primarily to a higher rate of return from Alternative Investments. Net investment income from Alternative Investments increased by \$8.0 million. Alternative investment income from Equity Method Limited Liability Investments, Fair Value Option Investments and other limited liability investments included in Equity Securities increased by \$5.9 million, \$1.9 million and \$0.2 million, respectively, for the three months ended September 30, 2017, compared to the same period in 2016. See MD&A, “Investment Results,” under the sub-caption “Net Investment Income” for additional discussion.

Net Realized Gains on Sales of Investments were \$45.0 million for the nine months ended September 30, 2017, compared to \$24.0 million for the same period in 2016. Net Realized Gains on Sales of Investments were \$8.1 million for the three months ended September 30, 2017, compared to \$11.6 million for the same period in 2016.

Net Impairment Losses Recognized in Earnings were \$10.5 million for the nine months ended September 30, 2017, compared to \$24.0 million for the same period in 2016. Net Impairment Losses Recognized in Earnings were \$2.9 million for the three months ended September 30, 2017, compared to \$8.3 million for the same period in 2016.

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.

### Consolidated Net Operating Income (Loss)

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

- (i) Net Realized Gains on Sales of Investments;
- (ii) Net Impairment Losses Recognized in Earnings related to investments;
- (iii) Loss from Early Extinguishment of Debt; and
- (iv) 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 (Loss) from Continuing Operations. There were no applicable significant non-recurring items that the Company excluded from the calculation of Consolidated Net Operating Income (Loss) for the nine and three months ended September 30, 2017 or 2016.

The Company believes that Consolidated Net Operating Income (Loss) 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. 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. 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>2017   | Sep 30,<br>2016 | Sep 30,<br>2017    | Sep 30,<br>2016 |
| Net Premiums Written                              | \$1,336.3         | \$1,230.8       | \$466.7            | \$422.7         |
| Earned Premiums                                   | \$1,283.1         | \$1,205.7       | \$443.5            | \$406.9         |
| Net Investment Income                             | 72.5              | 52.0            | 27.8               | 20.4            |
| Other Income                                      | 0.9               | 0.4             | 0.4                | 0.1             |
| Total Revenues                                    | 1,356.5           | 1,258.1         | 471.7              | 427.4           |
| Incurred Losses and LAE related to:               |                   |                 |                    |                 |
| Current Year:                                     |                   |                 |                    |                 |
| Non-catastrophe Losses and LAE                    | 924.5             | 913.3           | 313.1              | 306.7           |
| Catastrophe Losses and LAE                        | 128.2             | 97.9            | 29.8               | 11.3            |
| Prior Years:                                      |                   |                 |                    |                 |
| Non-catastrophe Losses and LAE                    | 23.0              | (1.3 )          | 1.6                | 3.1             |
| Catastrophe Losses and LAE                        | (4.4 )            | (16.2 )         | (1.2 )             | (3.9 )          |
| Total Incurred Losses and LAE                     | 1,071.3           | 993.7           | 343.3              | 317.2           |
| Insurance Expenses                                | 287.4             | 288.8           | 97.6               | 94.6            |
| Operating Income (Loss)                           | (2.2 )            | (24.4 )         | 30.8               | 15.6            |
| Income Tax Benefit (Expense)                      | 7.9               | 14.5            | (7.9 )             | (3.5 )          |
| Segment Net Operating Income (Loss)               | \$5.7             | \$(9.9 )        | \$22.9             | \$12.1          |
| Ratios Based On Earned Premiums                   |                   |                 |                    |                 |
| Current Year Non-catastrophe Losses and LAE Ratio | 72.0              | % 75.7          | % 70.6             | % 75.4          |
| Current Year Catastrophe Losses and LAE Ratio     | 10.0              | 8.1             | 6.7                | 2.8             |
| Prior Years Non-catastrophe Losses and LAE Ratio  | 1.8               | (0.1 )          | 0.4                | 0.8             |
| Prior Years Catastrophe Losses and LAE Ratio      | (0.3 )            | (1.3 )          | (0.3 )             | (1.0 )          |
| Total Incurred Loss and LAE Ratio                 | 83.5              | 82.4            | 77.4               | 78.0            |
| Insurance Expense Ratio                           | 22.4              | 24.0            | 22.0               | 23.2            |
| Combined Ratio                                    | 105.9             | % 106.4         | % 99.4             | % 101.2         |
| Underlying Combined Ratio                         |                   |                 |                    |                 |
| Current Year Non-catastrophe Losses and LAE Ratio | 72.0              | % 75.7          | % 70.6             | % 75.4          |
| Insurance Expense Ratio                           | 22.4              | 24.0            | 22.0               | 23.2            |
| Underlying Combined Ratio                         | 94.4              | % 99.7          | % 92.6             | % 98.6          |
| Non-GAAP Measure Reconciliation                   |                   |                 |                    |                 |
| Underlying Combined Ratio                         | 94.4              | % 99.7          | % 92.6             | % 98.6          |
| Current Year Catastrophe Losses and LAE Ratio     | 10.0              | 8.1             | 6.7                | 2.8             |
| Prior Years Non-catastrophe Losses and LAE Ratio  | 1.8               | (0.1 )          | 0.4                | 0.8             |
| Prior Years Catastrophe Losses and LAE Ratio      | (0.3 )            | (1.3 )          | (0.3 )             | (1.0 )          |
| Combined Ratio as Reported                        | 105.9             | % 106.4         | % 99.4             | % 101.2         |



## Property &amp; Casualty Insurance (continued)

## Catastrophe Frequency and Severity

| (Dollars in Millions)              | Nine Months Ended           |         |                             |        |
|------------------------------------|-----------------------------|---------|-----------------------------|--------|
|                                    | Sep 30,<br>2017             |         | Sep 30,<br>2016             |        |
|                                    | Numbers<br>of and<br>Events | LAE     | Numbers<br>of and<br>Events | LAE    |
| Range of Losses and LAE Per Event: |                             |         |                             |        |
| Below \$5                          | 30                          | \$53.7  | 34                          | \$29.0 |
| \$5 - \$10                         | 1                           | 5.0     | 2                           | 12.5   |
| \$10 - \$15                        | 2                           | 24.3    | —                           | —      |
| \$15 - \$20                        | —                           | —       | —                           | —      |
| \$20 - \$25                        | —                           | —       | 1                           | 24.4   |
| Greater Than \$25                  | 1                           | 45.2    | 1                           | 32.0   |
| Total                              | 34                          | \$128.2 | 38                          | \$97.9 |

## Insurance Reserves

(Dollars in Millions)      Sep 30, Dec 31,  
2017      2016

## Insurance Reserves:

Automobile      \$769.0      \$754.1

Homeowners      111.8      88.9

Other      41.2      41.1

Insurance Reserves      \$922.0      \$884.1

## Insurance Reserves:

## Loss Reserves:

Case      \$570.9      \$598.0

Incurred But Not Reported      219.2      158.2

Total Loss Reserves      790.1      756.2

LAE Reserves      131.9      127.9

Insurance Reserves      \$922.0      \$884.1

See MD&A, "Critical Accounting Estimates," of the 2016 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.

## Property &amp; Casualty Insurance (continued)

## Overall

## Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

The Property & Casualty Insurance segment reported Segment Net Operating Income of \$5.7 million for the nine months ended September 30, 2017, compared to Segment Net Operating Loss of \$9.9 million for the same period in 2016. Segment net operating results improved by \$15.6 million due primarily to lower underlying losses and LAE as a percentage of earned premiums, particularly in the Company's nonstandard automobile insurance business, including both its Alliance United business, acquired in April 2015, as well as the Company's legacy book, lower insurance expenses as a percentage of earned premiums and higher net investment income from Alternative Investments, partially offset by an unfavorable change in loss and LAE reserve development and higher incurred catastrophe losses and LAE (excluding reserve development).

Earned Premiums in the Property & Casualty Insurance segment increased by \$77.4 million, as higher average earned premium and higher volume accounted for increases of \$76.1 million and \$1.3 million, respectively. All 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 \$58.6 million and \$9.3 million, respectively. The higher volume was driven primarily by nonstandard personal automobile insurance, which had a volume increase of \$28.5 million, partially offset by volume decreases in preferred personal automobile insurance, homeowners insurance and commercial automobile insurance of \$11.0 million, \$8.8 million and \$5.3 million, respectively.

Net Investment Income in the Property & Casualty Insurance segment increased by \$20.5 million for the nine months ended September 30, 2017, compared to the same period in 2016, due primarily to a higher rate of return from Alternative Investments and, to a lesser extent, higher levels of non-alternative investments. The Property & Casualty Insurance segment reported Net Investment Income from Alternative Investments of \$30.1 million in 2017, compared to \$13.3 million in 2016.

Underlying losses and LAE as a percentage of earned premiums were 72.0% in 2017, an improvement of 3.7 percentage points, compared to 2016, driven primarily by improvements in nonstandard personal automobile insurance, particularly in the Alliance United business, partially offset by deterioration in preferred 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 \$128.2 million in 2017, compared to \$97.9 million in 2016, an increase of \$30.3 million. This increase was due primarily to higher average severity on catastrophic events with losses and LAE (excluding reserve development) of less than \$15 million in 2017, compared to 2016. This increase was partially offset by two large catastrophes, both Texas hailstorms, occurring in 2016 with aggregate estimated losses and LAE of \$56.4 million, compared to only one large catastrophe, also a Texas hailstorm, occurring in 2017 with estimated losses and LAE of \$45.2 million. Adverse loss and LAE reserve development (including catastrophe reserve development) was \$18.6 million in 2017, compared to favorable development of \$17.5 million in 2016. Adverse development in 2017 was driven primarily by preferred personal automobile insurance. Insurance expenses were \$287.4 million, or 22.4% of earned premiums, in 2017, an improvement of 1.6 percentage points compared to 2016, driven primarily by a mix shift in business written in the segment toward nonstandard personal automobile insurance, which runs at a lower expense ratio, improvement in the Alliance United expense ratio, an increase in the percentage of software development costs eligible for capitalization as projects moved from the preliminary project stage to the application development stage, cost reduction initiatives and premium growth outpacing growth in fixed costs.

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 \$19.6 million in 2017, compared to \$16.8 million in 2016.

Property & Casualty Insurance (continued)

Overall (continued)

Three Months Ended September 30, 2017 Compared to the Same Period in 2016

The Property & Casualty Insurance segment reported Segment Net Operating Income of \$22.9 million for the three months ended September 30, 2017, compared to \$12.1 million for the same period in 2016. Segment net operating results improved by \$10.8 million due primarily to lower underlying losses and LAE as a percentage of earned premiums, higher net investment income from alternative investments and lower insurance expenses as a percentage of earned premiums, partially offset by higher incurred catastrophe losses and LAE (excluding reserve development). Earned Premiums in the Property & Casualty Insurance segment increased by \$36.6 million for the three months ended September 30, 2017, compared to the same period in 2016, as higher average earned premium and higher volume accounted for increases of \$27.0 million and \$9.6 million, respectively. All 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 \$20.8 million and \$3.4 million, respectively. The higher volume was driven by nonstandard personal automobile insurance, which had a volume increase of \$18.5 million, partially offset by volume decreases in preferred personal automobile insurance, homeowners insurance and commercial automobile insurance of \$3.5 million, \$3.3 million and \$1.4 million, respectively.

Net Investment Income in the Property & Casualty Insurance segment increased by \$7.4 million for the three months ended September 30, 2017, compared to the same period in 2016, due primarily to higher yields on Alternative Investments and, to a lesser extent, higher levels and yields on non-alternative investments. The Property & Casualty Insurance segment reported Net Investment Income from Alternative Investments of \$12.7 million in 2017, compared to \$7.2 million in 2016.

Underlying losses and LAE as a percentage of earned premiums were 70.6% in 2017, an improvement of 4.8 percentage points, compared to 2016, driven primarily by improvement in nonstandard personal automobile insurance, particularly in the Alliance United business. Catastrophe losses and LAE (excluding reserve development) were \$29.8 million in 2017, compared to \$11.3 million in 2016. The increase of \$18.5 million was due primarily to Hurricanes Harvey and Irma in the third quarter of 2017 and, to a lesser extent, adverse intra-year development on catastrophes occurring in the first six months of 2017. Adverse loss and LAE reserve development (including catastrophe reserve development) was \$0.4 million in 2017, compared to favorable loss and LAE reserve development (including catastrophe reserve development) of \$0.8 million in 2016.

Insurance expenses were \$97.6 million, or 22.0% of earned premiums, in 2017, an improvement of 1.2 percentage points compared to 2016, driven primarily by a mix shift in business written in the segment toward nonstandard personal automobile insurance, which runs at a lower expense ratio, cost reduction initiatives and premium growth outpacing growth in fixed costs.

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 \$7.0 million in 2017, compared to \$5.2 million in 2016.

California Wildfires - Fourth Quarter 2017

In early October 2017, a series of wildfires began burning in California. The Company expects to incur significant catastrophe losses and LAE in the fourth quarter of 2017 from these wildfires. See Note 3, Property and Casualty Insurance Reserves, to the Condensed Consolidated Financial Statements for additional discussion related to these subsequent events.

## 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,<br>2017   | Sep 30,<br>2016 | Sep 30,<br>2017    | Sep 30,<br>2016 |
| Net Premiums Written                | \$321.4           | \$323.6         | \$112.6            | \$114.1         |
| Earned Premiums                     | \$316.3           | \$318.0         | \$106.5            | \$106.6         |
| Incurred Losses and LAE related to: |                   |                 |                    |                 |
| Current Year:                       |                   |                 |                    |                 |
| Non-catastrophe Losses and LAE      | \$227.9           | \$222.3         | \$74.2             | \$74.0          |
| Catastrophe Losses and LAE          | 11.4              | 11.3            | 2.8                | 1.2             |
| Prior Years:                        |                   |                 |                    |                 |
| Non-catastrophe Losses and LAE      | 18.2              | 0.8             | 0.8                | (0.4 )          |
| Catastrophe Losses and LAE          | (0.2 )            | (0.3 )          | —                  | —               |
| Total Incurred Losses and LAE       | \$257.3           | \$234.1         | \$77.8             | \$74.8          |

## Ratios Based On Earned Premiums

|   |        |        |        |        |   |
|---|--------|--------|--------|--------|---|
| Current Year Non-catastrophe Losses and LAE Ratio | 72.0   | % 69.8 | % 69.7 | % 69.5 | % |
| Current Year Catastrophe Losses and LAE Ratio     | 3.6    | 3.6    | 2.6    | 1.1    |   |
| Prior Years Non-catastrophe Losses and LAE Ratio  | 5.8    | 0.3    | 0.8    | (0.4 ) |   |
| Prior Years Catastrophe Losses and LAE Ratio      | (0.1 ) | (0.1 ) | —      | —      |   |
| Total Incurred Loss and LAE Ratio                 | 81.3   | % 73.6 | % 73.1 | % 70.2 | % |

## Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums on preferred personal automobile insurance decreased by \$1.7 million as lower volume accounted for a decrease of \$11.0 million, while higher average earned premium accounted for an increase of \$9.3 million. The run-off of the direct-to-consumer business accounted for over 70% of the decrease in earned premiums attributed to lower volume. Incurred losses and LAE were \$257.3 million, or 81.3% of earned premiums, in 2017, compared to \$234.1 million, or 73.6% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due primarily to a higher level of adverse loss and LAE reserve development and higher underlying losses and LAE as a percentage of related earned premiums. Underlying losses and LAE as a percentage of related earned premiums were 72.0% in 2017, compared to 69.8% in 2016, a deterioration of 2.2 percentage points due primarily to higher severity of losses, particularly on bodily injury coverage, partially offset by lower frequency of claims on most coverages, particularly bodily injury, and higher average earned premium. Catastrophe losses and LAE (excluding reserve development) were \$11.4 million in 2017, compared to \$11.3 million in 2016, both periods experiencing higher losses than average due to Hurricanes Harvey and Irma in 2017, and hailstorms in Texas in both 2017 and 2016. Adverse loss and LAE reserve development was \$18.0 million in 2017, compared to \$0.5 million in 2016.

## Property &amp; Casualty Insurance (continued)

## Preferred Personal Automobile Insurance (continued)

Three Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums on preferred personal automobile insurance decreased by \$0.1 million as lower volume accounted for a decrease of \$3.5 million, while higher average earned premium accounted for an increase of \$3.4 million. The run-off of the direct-to-consumer business accounted for over 60% of the decrease in earned premiums attributed to lower volume. Incurred losses and LAE were \$77.8 million, or 73.1% of earned premiums, in 2017, compared to \$74.8 million, or 70.2% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due primarily to higher incurred catastrophe losses and LAE (excluding reserve development) and an unfavorable change in loss and LAE reserve development. Underlying losses and LAE as a percentage of related earned premiums were 69.7% in 2017, compared to 69.5% in 2016, a deterioration of 0.2 percentage points due primarily to higher severity of losses, particularly on bodily injury, property damage and collision coverages, partially offset by lower frequency of claims on most coverages, particularly bodily injury, and higher average earned premium. Catastrophe losses and LAE (excluding reserve development) were \$2.8 million in 2017, compared to \$1.2 million in 2016. Loss and LAE reserve development was adverse by \$0.8 million in 2017, compared to favorable development of \$0.4 million in 2016.

## Nonstandard Personal Automobile Insurance

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

| (Dollars in Millions)                             | Nine Months<br>Ended |                 | Three Months<br>Ended |                 |   |
|---|----------------------|-----------------|-----------------------|-----------------|---|
|   | Sep 30,<br>2017      | Sep 30,<br>2016 | Sep 30,<br>2017       | Sep 30,<br>2016 |   |
| Net Premiums Written                              | \$742.5              | \$628.5         | \$259.8               | \$211.4         |   |
| Earned Premiums                                   | \$696.5              | \$609.4         | \$246.5               | \$207.2         |   |
| Incurred Losses and LAE related to:               |                      |                 |                       |                 |   |
| Current Year:                                     |                      |                 |                       |                 |   |
| Non-catastrophe Losses and LAE                    | \$545.8              | \$540.0         | \$185.5               | \$179.7         |   |
| Catastrophe Losses and LAE                        | 5.6                  | 5.8             | 1.5                   | 1.8             |   |
| Prior Years:                                      |                      |                 |                       |                 |   |
| Non-catastrophe Losses and LAE                    | 0.3                  | 6.9             | 2.1                   | 2.1             |   |
| Catastrophe Losses and LAE                        | (0.2 )               | (0.1 )          | (0.1 )                | (0.1 )          |   |
| Total Incurred Losses and LAE                     | \$551.5              | \$552.6         | \$189.0               | \$183.5         |   |
| Ratios Based On Earned Premiums                   |                      |                 |                       |                 |   |
| Current Year Non-catastrophe Losses and LAE Ratio | 78.4                 | % 88.6          | % 75.2                | % 86.7          | % |
| Current Year Catastrophe Losses and LAE Ratio     | 0.8                  | 1.0             | 0.6                   | 0.9             |   |
| Prior Years Non-catastrophe Losses and LAE Ratio  | —                    | 1.1             | 0.9                   | 1.0             |   |
| Prior Years Catastrophe Losses and LAE Ratio      | —                    | —               | —                     | —               |   |
| Total Incurred Loss and LAE Ratio                 | 79.2                 | % 90.7          | % 76.7                | % 88.6          | % |

Property & Casualty Insurance (continued)

Nonstandard Personal Automobile Insurance (continued)

Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums on nonstandard personal automobile insurance increased by \$87.1 million, as higher average earned premium and higher volume accounted for increases of \$58.6 million and \$28.5 million, respectively. Incurred losses and LAE were \$551.5 million, or 79.2% of earned premiums, in 2017, compared to \$552.6 million, or 90.7% of earned premiums, in 2016. 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, a lower level of adverse loss and LAE reserve development. Underlying losses and LAE as a percentage of related earned premiums were 78.4% in 2017, compared to 88.6% in 2016, an improvement of 10.2 percentage points due to significant improvement in both the Alliance United and legacy books of business. For Alliance United, underlying losses and LAE as a percentage of related earned premiums improved 14.0 percentage points due primarily to higher average earned premium and, to a lesser extent, lower frequency of liability claims. For the legacy book, underlying losses and LAE as a percentage of related earned premiums improved 4.5 percentage points due primarily to lower frequency of claims, particularly on liability coverages, and higher average earned premium, partially offset by higher severity of losses on most coverages, particularly liability. Catastrophe losses and LAE (excluding reserve development) were \$5.6 million in 2017, compared to \$5.8 million in 2016. Loss and LAE reserve development was adverse by \$0.1 million in 2017, compared to \$6.8 million in 2016.

Three Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums on nonstandard personal automobile insurance increased by \$39.3 million, as higher average earned premium and higher volume accounted for increases of \$20.8 million and \$18.5 million, respectively. Higher average earned premium was driven primarily by rating actions taken to address rate adequacy, particularly in the Alliance United book of business. Incurred losses and LAE were \$189.0 million, or 76.7% of earned premiums, in 2017, compared to \$183.5 million, or 88.6% of earned premiums, in 2016. 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. Underlying losses and LAE as a percentage of related earned premiums were 75.2% in 2017, compared to 86.7% in 2016, an improvement of 11.5 percentage points due to significant improvement in both the Alliance United and legacy books of business. For Alliance United, underlying losses and LAE as a percentage of related earned premiums improved 16.2 percentage points due primarily to higher average earned premium and lower frequency of liability claims. For the legacy book, underlying losses and LAE as a percentage of related earned premiums improved 3.7 percentage points due primarily to lower frequency of claims, particularly on liability coverages, and higher average earned premium, partially offset by higher severity of losses on most coverages. Catastrophe losses and LAE (excluding reserve development) were \$1.5 million in 2017, compared to \$1.8 million in 2016. Adverse loss and LAE reserve development was \$2.0 million in 2017, compared to \$2.0 million in 2016.

## 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, 2017      | Sep 30, 2016 | Sep 30, 2017       | Sep 30, 2016 |
| Net Premiums Written                | \$200.1           | \$205.2      | \$70.8             | \$73.1       |
| Earned Premiums                     | \$199.6           | \$204.2      | \$66.7             | \$68.5       |
| Incurred Losses and LAE related to: |                   |              |                    |              |
| Current Year:                       |                   |              |                    |              |
| Non-catastrophe Losses and LAE      | \$103.2           | \$102.9      | \$36.9             | \$36.8       |
| Catastrophe Losses and LAE          | 108.0             | 77.7         | 24.8               | 7.8          |
| Prior Years:                        |                   |              |                    |              |
| Non-catastrophe Losses and LAE      | 3.1               | (3.8 )       | 0.9                | (0.6 )       |
| Catastrophe Losses and LAE          | (3.2 )            | (14.3 )      | (0.8 )             | (3.5 )       |
| Total Incurred Losses and LAE       | \$211.1           | \$162.5      | \$61.8             | \$40.5       |

## Ratios Based On Earned Premiums

|   |        |        |        |        |   |
|---|--------|--------|--------|--------|---|
| Current Year Non-catastrophe Losses and LAE Ratio | 51.7   | % 50.4 | % 55.4 | % 53.7 | % |
| Current Year Catastrophe Losses and LAE Ratio     | 54.1   | 38.1   | 37.2   | 11.4   |   |
| Prior Years Non-catastrophe Losses and LAE Ratio  | 1.6    | (1.9 ) | 1.3    | (0.9 ) |   |
| Prior Years Catastrophe Losses and LAE Ratio      | (1.6 ) | (7.0 ) | (1.2 ) | (5.1 ) |   |
| Total Incurred Loss and LAE Ratio                 | 105.8  | % 79.6 | % 92.7 | % 59.1 | % |

## Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums on homeowners insurance decreased by \$4.6 million as lower volume accounted for a decrease of \$8.8 million, while higher average earned premium accounted for an increase of \$4.2 million. Incurred losses and LAE were \$211.1 million, or 105.8% of earned premiums, in 2017, compared to \$162.5 million, or 79.6% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due primarily to higher incurred catastrophe losses and LAE (excluding reserve development), a lower level of favorable loss and LAE reserve development and, to a lesser extent, higher underlying losses and LAE as a percentage of related earned premiums. Underlying losses and LAE as a percentage of earned premiums were 51.7% in 2017, compared to 50.4% in 2016, a deterioration of 1.3 percentage points due primarily to higher frequency of claims, partially offset by higher average earned premium and lower severity of losses. Catastrophe losses and LAE (excluding reserve development) were \$108.0 million in 2017, compared to \$77.7 million in 2016. This increase was due primarily to higher average severity on catastrophic events in 2017 with losses and LAE (excluding reserve development) of less than \$15 million, compared to 2016, partially offset by the impact of the aggregate loss from the two aforementioned Texas hailstorms that occurred in 2016 exceeding the loss from the aforementioned Texas hailstorm that occurred in 2017. Favorable loss and LAE reserve development was \$0.1 million in 2017, compared to \$18.1 million in 2016.

## Property &amp; Casualty Insurance (continued)

## Homeowners Insurance (continued)

## Three Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums on homeowners insurance decreased by \$1.8 million as lower volume accounted for a decrease of \$3.3 million, while higher average earned premium accounted for an increase of \$1.5 million. Incurred losses and LAE were \$61.8 million, or 92.7% of earned premiums, in 2017, compared to \$40.5 million, or 59.1% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due primarily to higher incurred catastrophe losses and LAE (excluding reserve development), an unfavorable change in loss and LAE reserve development and, to a lesser extent, higher underlying losses and LAE as a percentage of related earned premiums. Underlying losses and LAE as a percentage of earned premiums were 55.4% in 2017, compared to 53.7% in 2016, a deterioration of 1.7 percentage points due primarily to higher severity of losses, partially offset by lower frequency of claims and, to a lesser extent, higher average earned premium. Catastrophe losses and LAE were \$24.8 million in 2017, compared to \$7.8 million in 2016. This increase was due primarily to Hurricanes Harvey and Irma in the third quarter of 2017 and, to a lesser extent, higher adverse intra-year development on first and second quarter catastrophe losses and LAE in 2017. Adverse loss and LAE reserve development was \$0.1 million in 2017, compared to favorable development of \$4.1 million in 2016.

## Commercial Automobile Insurance

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

| (Dollars in Millions)               | Nine Months Ended |              | Three Months Ended |              |
|-------------------------------------|-------------------|--------------|--------------------|--------------|
|                                     | Sep 30, 2017      | Sep 30, 2016 | Sep 30, 2017       | Sep 30, 2016 |
| Net Premiums Written                | \$40.6            | \$40.0       | \$12.6             | \$12.5       |
| Earned Premiums                     | \$38.5            | \$40.2       | \$13.1             | \$13.3       |
| Incurred Losses and LAE related to: |                   |              |                    |              |
| Current Year:                       |                   |              |                    |              |
| Non-catastrophe Losses and LAE      | \$30.8            | \$31.8       | \$11.3             | \$10.4       |
| Catastrophe Losses and LAE          | 0.7               | 0.9          | 0.2                | 0.4          |
| Prior Years:                        |                   |              |                    |              |
| Non-catastrophe Losses and LAE      | 2.1               | 0.1          | (1.3 )             | 4.2          |
| Catastrophe Losses and LAE          | (0.1 )            | (0.1 )       | (0.1 )             | (0.1 )       |
| Total Incurred Losses and LAE       | \$33.5            | \$32.7       | \$10.1             | \$14.9       |

## Ratios Based On Earned Premiums

|   |        |        |        |         |
|---|--------|--------|--------|---------|
| Current Year Non-catastrophe Losses and LAE Ratio | 80.0 % | 79.1 % | 86.3 % | 78.2 %  |
| Current Year Catastrophe Losses and LAE Ratio     | 1.8    | 2.2    | 1.5    | 3.0     |
| Prior Years Non-catastrophe Losses and LAE Ratio  | 5.5    | 0.2    | (9.9 ) | 31.6    |
| Prior Years Catastrophe Losses and LAE Ratio      | (0.3 ) | (0.2 ) | (0.8 ) | (0.8 )  |
| Total Incurred Loss and LAE Ratio                 | 87.0 % | 81.3 % | 77.1 % | 112.0 % |

## Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums on commercial automobile insurance decreased by \$1.7 million as lower volume accounted for a decrease of \$5.3 million, while higher average earned premium accounted for an increase of \$3.6 million. Incurred losses and LAE were \$33.5 million, or 87.0% of earned premiums, in 2017, compared to \$32.7 million, or 81.3% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due primarily to higher adverse loss and LAE reserve development and higher underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 80.0% in 2017, compared to 79.1% in 2016, a deterioration of 0.9 percentage point due primarily to higher severity of losses on all coverages, particularly



bodily injury, partially offset by lower frequency of claims on most coverages and higher average earned premium. Loss and LAE reserve development was adverse by \$2.0 million in 2017, compared to flat in 2016.

## Property &amp; Casualty Insurance (continued)

## Commercial Automobile Insurance (continued)

Three Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums on commercial automobile insurance decreased by \$0.2 million as lower volume accounted for a decrease of \$1.4 million, while higher average earned premium accounted for an increase of \$1.2 million. Incurred losses and LAE were \$10.1 million, or 77.1% of earned premiums, in 2017, compared to \$14.9 million, or 112.0% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums decreased due to a favorable change in loss and LAE reserve development, partially offset by higher underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 86.3% in 2017, compared to 78.2% in 2016, a deterioration of 8.1 percentage points due primarily to higher severity of losses on most coverages, particularly liability, partially offset by lower frequency of claims on most coverages, particularly bodily injury, and higher average earned premium. Loss and LAE reserve development was favorable by \$1.4 million in 2017, compared to adverse development of \$4.1 million in 2016.

## 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           |                 | Ended           |                 |
|                                     | Sep 30,<br>2017 | Sep 30,<br>2016 | Sep 30,<br>2017 | Sep 30,<br>2016 |
| Net Premiums Written                | \$31.7          | \$33.5          | \$10.9          | \$11.6          |
| Earned Premiums                     | \$32.2          | \$33.9          | \$10.7          | \$11.3          |
| Incurred Losses and LAE related to: |                 |                 |                 |                 |
| Current Year:                       |                 |                 |                 |                 |
| Non-catastrophe Losses and LAE      | \$16.8          | \$16.3          | \$5.2           | \$5.8           |
| Catastrophe Losses and LAE          | 2.5             | 2.2             | 0.5             | 0.1             |
| Prior Years:                        |                 |                 |                 |                 |
| Non-catastrophe Losses and LAE      | (0.7 )          | (5.3 )          | (0.9 )          | (2.2 )          |
| Catastrophe Losses and LAE          | (0.7 )          | (1.4 )          | (0.2 )          | (0.2 )          |
| Total Incurred Losses and LAE       | \$17.9          | \$11.8          | \$4.6           | \$3.5           |

## Ratios Based On Earned Premiums

|   |        |         |        |         |
|---|--------|---------|--------|---------|
| Current Year Non-catastrophe Losses and LAE Ratio | 52.2 % | 48.0 %  | 48.6 % | 51.4 %  |
| Current Year Catastrophe Losses and LAE Ratio     | 7.8    | 6.5     | 4.7    | 0.9     |
| Prior Years Non-catastrophe Losses and LAE Ratio  | (2.2 ) | (15.6 ) | (8.4 ) | (19.5 ) |
| Prior Years Catastrophe Losses and LAE Ratio      | (2.2 ) | (4.1 )  | (1.9 ) | (1.8 )  |
| Total Incurred Loss and LAE Ratio                 | 55.6 % | 34.8 %  | 43.0 % | 31.0 %  |

Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums on other personal insurance decreased by \$1.7 million as lower volume accounted for a decrease of \$2.1 million, while higher average earned premium accounted for an increase of \$0.4 million. Incurred losses and LAE were \$17.9 million, or 55.6% of earned premiums, in 2017, compared to \$11.8 million, or 34.8% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due primarily to a lower level of favorable loss and LAE reserve development and higher underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 52.2% in 2017, compared to 48.0% in 2016, a deterioration of 4.2 percentage points due primarily to higher severity of losses on most coverages, partially offset by lower frequency of umbrella claims. Catastrophe losses and LAE (excluding reserve development) were \$2.5 million in 2017, compared to \$2.2 million in 2016. Favorable loss and LAE reserve development was \$1.4 million in

2017, compared to \$6.7 million in 2016.

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## Property &amp; Casualty Insurance (continued)

## Other Personal Insurance (continued)

## Three Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums on other personal insurance decreased by \$0.6 million as lower volume accounted for a decrease of \$0.7 million, while higher average premium accounted for an increase of \$0.1 million. Incurred losses and LAE were \$4.6 million, or 43.0% of earned premiums, in 2017, compared to \$3.5 million, or 31.0% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due to a lower level of favorable loss and LAE reserve development and higher incurred catastrophe losses and LAE (excluding reserve development), partially offset by lower underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 48.6% in 2017, compared to 51.4% in 2016, an improvement of 2.8 percentage points due primarily to a favorable change in intra-year development, partially offset by higher frequency of umbrella claims. Catastrophe losses and LAE (excluding reserve development) were \$0.5 million in 2017, compared to \$0.1 million in 2016. Favorable loss and LAE reserve development was \$1.1 million in 2017, compared to \$2.4 million in 2016.

## Life &amp; Health Insurance

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

| (Dollars in Millions)                               | Nine Months |         | Three Months |           |
|---|-------------|---------|--------------|-----------|
|   | Ended       | Ended   | Ended        | Ended     |
|   | Sep 30,     | Sep 30, | Sep 30,      | Sep 30,   |
|   | 2017        | 2016    | 2017         | 2016      |
| Earned Premiums                                     | \$461.0     | \$452.9 | \$154.7      | \$152.0   |
| Net Investment Income                               | 163.8       | 159.6   | 55.9         | 54.5      |
| Other Income  | 1.9         | 1.9     | 0.7          | 0.7       |
| Total Revenues                                      | 626.7       | 614.4   | 211.3        | 207.2     |
| Policyholders' Benefits and Incurred Losses and LAE | 293.6       | 368.8   | 96.8         | 173.0     |
| Insurance Expenses                                  | 233.3       | 235.0   | 78.5         | 79.9      |
| Operating Profit (Loss)                             | 99.8        | 10.6    | 36.0         | (45.7 )   |
| Income Tax Benefit (Expense)                        | (34.3 )     | (3.3 )  | (12.5 )      | 16.3      |
| Segment Net Operating Income (Loss)                 | \$65.5      | \$7.3   | \$23.5       | \$(29.4 ) |

## Insurance Reserves

| (Dollars in Millions)                  | Sep 30,   | Dec 31,   |
|--|-----------|-----------|
|  | 2017      | 2016      |
| Insurance Reserves:                    |           |           |
| Future Policyholder Benefits           | \$3,345.7 | \$3,311.5 |
| Incurred Losses and LAE Reserves:      |           |           |
| Life                                   | 141.6     | 141.9     |
| Accident and Health                    | 22.5      | 21.9      |
| Property                               | 7.3       | 4.5       |
| Total Incurred Losses and LAE Reserves | 171.4     | 168.3     |
| Insurance Reserves                     | \$3,517.1 | \$3,479.8 |

## Overall

## Use of Death Verification Databases

In the third quarter of 2016, the Company's Life & Health segment voluntarily began implementing a comprehensive process under which it will cross-reference 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. Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses for the nine and three months ended September 30, 2016 included a pre-tax charge of \$77.8 million to recognize the impact of using death verification databases in the Company's operations, including to determine its IBNR liability for unpaid claims and claims adjustment expenses for life insurance products.



Life & Health Insurance (continued)

Overall (continued)

Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums in the Life & Health Insurance segment increased by \$8.1 million for the nine months ended September 30, 2017, compared to the same period in 2016, due primarily to higher volume from accident and health insurance products offered by Reserve National Insurance Company (“Reserve National”), partially offset by lower earned premiums on property insurance products offered by Kemper Home Service Companies (“KHSC”).

Net Investment Income increased by \$4.2 million for the nine months ended September 30, 2017, compared to the same period in 2016, due primarily to higher levels of non-alternative investments and higher investment returns from Alternative Investments, partially offset by lower yields on non-alternative investments.

Policyholders’ Benefits and Incurred Losses and LAE decreased by \$75.2 million in 2017, compared to the same period in 2016. Excluding the impact of using death verification databases described above, Policyholders’ Benefits and Incurred Losses and LAE increased by \$2.6 million due primarily to higher incurred losses and LAE on accident and health insurance largely in line with a higher volume of accident and health insurance earned premiums, partially offset by lower policyholders’ benefits on life insurance. Expenses in the Life & Health Insurance segment decreased by \$1.7 million due primarily to a change in the mix of deferrable and non-deferrable agent compensation for the KHSC and lower general expenses for KHSC, partially offset by higher commission and amortization expense for Reserve National. Segment Net Operating Income in the Life & Health Insurance segment was \$65.5 million for the nine months ended September 30, 2017, compared to \$7.3 million in 2016.

Three Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned Premiums in the Life & Health Insurance segment increased by \$2.7 million for the three months ended September 30, 2017, compared to the same period in 2016, due primarily to higher volume from accident and health insurance products offered by Reserve National, partially offset by lower earned premiums on life insurance and property insurance.

Net Investment Income increased by \$1.4 million for the three months ended September 30, 2017, compared to the same period in 2016, due primarily to higher investment returns from Alternative Investments and higher levels of non-alternative investments, partially offset by lower yields on non-alternative investments.

Policyholders’ Benefits and Incurred Losses and LAE decreased by \$76.2 million in 2017, compared to the same period in 2016. Excluding the impact of using death verification databases described above, Policyholders’ Benefits and Incurred Losses and LAE increased by \$1.6 million due primarily to higher incurred losses and LAE on accident and health insurance largely in line with a higher volume of accident and health insurance earned premiums and higher incurred losses and LAE on property insurance, partially offset by lower policyholders’ benefits on life insurance. Insurance Expenses in the Life & Health Insurance segment decreased by \$1.4 million in 2017, compared to 2016, due primarily to lower fringe benefit costs, a change in the mix of deferrable and non-deferrable agent compensation for KHSC and lower legal expenses for KHSC, partially offset by higher commission and amortization expense for Reserve National. Segment Net Operating Income in the Life & Health Insurance segment was \$23.5 million for the three months ended September 30, 2017, compared to Segment Net Operating Loss of \$29.4 million in 2016.

## Life &amp; Health Insurance (continued)

## Life Insurance

Selected financial information for the life insurance product line follows.

| (Dollars in Millions)                               | Nine Months  |              | Three Months |              |
|---|--------------|--------------|--------------|--------------|
|   | Ended        |              | Ended        |              |
|   | Sep 30, 2017 | Sep 30, 2016 | Sep 30, 2017 | Sep 30, 2016 |
| Earned Premiums                                     | \$285.6      | \$285.7      | \$94.5       | \$95.8       |
| Net Investment Income                               | 158.4        | 154.6        | 54.1         | 52.7         |
| Other Income  | 1.7          | 1.6          | 0.6          | 0.6          |
| Total Revenues                                      | 445.7        | 441.9        | 149.2        | 149.1        |
| Policyholders' Benefits and Incurred Losses and LAE | 207.3        | 288.3        | 66.4         | 146.5        |
| Insurance Expenses                                  | 156.2        | 158.2        | 53.0         | 54.9         |
| Operating Profit (Loss)                             | 82.2         | (4.6 )       | 29.8         | (52.3 )      |
| Income Tax Benefit (Expense)                        | (28.2 )      | 1.9          | (10.3 )      | 18.6         |
| Total Product Line Net Operating Income (Loss)      | \$54.0       | \$(2.7 )     | \$19.5       | \$(33.7)     |

Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned premiums on life insurance decreased by \$0.1 million in 2017, compared to 2016. Policyholders' benefits on life insurance were \$207.3 million in 2017, compared to \$288.3 million in 2016, a decrease of \$81.0 million.

Excluding the impact of using death verification databases described above, Policyholders' Benefits and Incurred Losses and LAE decreased by \$3.2 million due primarily to lower benefits provided for life insurance products offered by Reserve National. Insurance Expenses decreased by \$2.0 million in 2017, compared to 2016, to a change in the mix of deferrable and non-deferrable agent compensation for the KHSC, partially offset by higher commission and other general expenses for Reserve National.

Three Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned premiums on life insurance decreased by \$1.3 million in 2017, compared to 2016, due primarily to the termination of the relationship between Reserve National and one of its brokers. Policyholders' benefits on life insurance were \$66.4 million in 2017, compared to \$146.5 million in 2016, a decrease of \$80.1 million. Excluding the impact of using death verification databases described above, Policyholders' Benefits and Incurred Losses and LAE decreased \$2.3 million due primarily to lower benefits provided for life insurance products offered by Reserve National. Insurance Expenses decreased by \$1.9 million in 2017, compared to 2016, due primarily to lower fringe benefit costs, a change in the mix of deferrable and non-deferrable agent compensation and lower legal expenses for KHSC, partially offset by higher commission and other general expenses for Reserve National.

## Accident and Health Insurance

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

| (Dollars in Millions)                               | Nine Months  |              | Three Months |              |
|---|--------------|--------------|--------------|--------------|
|   | Ended        |              | Ended        |              |
|   | Sep 30, 2017 | Sep 30, 2016 | Sep 30, 2017 | Sep 30, 2016 |
| Earned Premiums                                     | \$120.6      | \$111.2      | \$42.0       | \$37.6       |
| Net Investment Income                               | 4.0          | 4.0          | 1.3          | 1.4          |
| Other Income  | 0.2          | 0.3          | 0.1          | 0.1          |
| Total Revenues                                      | 124.8        | 115.5        | 43.4         | 39.1         |
| Policyholders' Benefits and Incurred Losses and LAE | 65.9         | 60.7         | 22.9         | 19.9         |
| Insurance Expenses                                  | 52.5         | 50.3         | 17.6         | 16.4         |
| Operating Profit                                    | 6.4          | 4.5          | 2.9          | 2.8          |
| Income Tax Expense                                  | (2.4 )       | (1.6 )       | (1.2 )       | (1.0 )       |
| Total Product Line Net Operating Income             | \$4.0        | \$2.9        | \$1.7        | \$1.8        |





Life & Health Insurance (continued)

Accident and Health Insurance (continued)

Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned premiums on accident and health insurance increased by \$9.4 million in 2017, compared to 2016, due primarily to higher volume on accident and health insurance products offered by Reserve National and, to a lesser extent, lower accrued medical loss ratio (“MLR”) premium rebates. Incurred accident and health insurance losses were \$65.9 million, or 54.6% of accident and health insurance earned premiums, in 2017, compared to \$60.7 million, or 54.6% of accident and health insurance earned premiums, in 2016. There was no change in incurred accident and health insurance losses as a percentage of earned as the impact of lower average claim costs in other supplemental products offered by KHSC was offset by higher incurred claims on Medicare and other supplemental products offered by Reserve National. Insurance Expenses increased by \$2.2 million in 2017, compared to 2016, due primarily to the higher commission expense for Reserve National due in part to higher volume of earned premiums.

Three Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned premiums on accident and health insurance increased by \$4.4 million in 2017, compared to 2016, due primarily to higher volume and lower accrued MLR premium rebates. Incurred accident and health insurance losses were \$22.9 million, or 54.5% of accident and health insurance earned premiums, in 2017, compared to \$19.9 million, or 52.9% of accident and health insurance earned premiums, in 2016. Incurred accident and health insurance losses increased as a percentage of earned premiums due primarily to higher incurred claims on hospitalization and Medicare supplement products offered by Reserve National, partially offset by lower incurred claims on other supplemental products. Insurance Expenses increased by \$1.2 million in 2017, compared to 2016, due primarily to higher commission expense for Reserve National due in part to higher volume of earned premiums.

## Life &amp; 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, 2017      | Sep 30, 2016 | Sep 30, 2017       | Sep 30, 2016 |
| Earned Premiums                                   | \$54.8            | \$56.0       | \$18.2             | \$18.6       |
| Net Investment Income                             | 1.4               | 1.0          | 0.5                | 0.4          |
| Total Revenues                                    | 56.2              | 57.0         | 18.7               | 19.0         |
| Incurred Losses and LAE related to:               |                   |              |                    |              |
| Current Year:                                     |                   |              |                    |              |
| Non-catastrophe Losses and LAE                    | 13.4              | 15.4         | 3.9                | 5.6          |
| Catastrophe Losses and LAE                        | 5.9               | 4.6          | 3.3                | 1.4          |
| Prior Years:                                      |                   |              |                    |              |
| Non-catastrophe Losses and LAE                    | 0.4               | —            | 0.1                | (0.3 )       |
| Catastrophe Losses and LAE                        | 0.7               | (0.2 )       | 0.2                | (0.1 )       |
| Total Incurred Losses and LAE                     | 20.4              | 19.8         | 7.5                | 6.6          |
| Insurance Expenses                                | 24.6              | 26.5         | 7.9                | 8.6          |
| Operating Profit                                  | 11.2              | 10.7         | 3.3                | 3.8          |
| Income Tax Expense                                | (3.7 )            | (3.6 )       | (1.0 )             | (1.3 )       |
| Total Product Line Net Operating Income           | \$7.5             | \$7.1        | \$2.3              | \$2.5        |
| Ratios Based On Earned Premiums                   |                   |              |                    |              |
| Current Year Non-catastrophe Losses and LAE Ratio | 24.4 %            | 27.6 %       | 21.5 %             | 30.1 %       |
| Current Year Catastrophe Losses and LAE Ratio     | 10.8              | 8.2          | 18.1               | 7.5          |
| Prior Years Non-catastrophe Losses and LAE Ratio  | 0.7               | —            | 0.5                | (1.6 )       |
| Prior Years Catastrophe Losses and LAE Ratio      | 1.3               | (0.4 )       | 1.1                | (0.5 )       |
| Total Incurred Loss and LAE Ratio                 | 37.2 %            | 35.4 %       | 41.2 %             | 35.5 %       |

## Nine Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned premiums on property insurance decreased by \$1.2 million in 2017, compared to 2016. Incurred losses and LAE on property insurance were \$20.4 million, or 37.2% of property insurance earned premiums, in 2017, compared to \$19.8 million, or 35.4% of property insurance earned premiums, in 2016. Underlying losses and LAE on property insurance were \$13.4 million, or 24.4% of property insurance earned premiums, in 2017, compared to \$15.4 million, or 27.6% of property insurance earned premiums, in 2016, and decreased due primarily to lower frequency of claims. Catastrophe losses and LAE (excluding development), net of reinsurance recoveries from the Florida Hurricane Catastrophe Fund (the "FHCF"), were \$5.9 million in 2017, compared to \$4.6 million in 2016. Catastrophe Losses and LAE, net of reinsurance recoveries from the FHCF, in 2017 included catastrophe losses and LAE of \$3.2 million from Hurricanes Harvey and Irma. Unfavorable loss and LAE reserve development was \$1.1 million in 2017, compared to favorable loss and LAE reserve development of \$0.2 million in 2016.

## Three Months Ended September 30, 2017 Compared to the Same Period in 2016

Earned premiums on property insurance decreased by \$0.4 million in 2017, compared to 2016. Incurred losses and LAE on property insurance were \$7.5 million, or 41.2% of property insurance earned premiums, in 2017, compared to \$6.6 million, or 35.5% of property insurance earned premiums, in 2016. Underlying losses and LAE on property insurance were \$3.9 million, or 21.5% of property insurance earned premiums, in 2017, compared to \$5.6 million, or 30.1% of property insurance earned premiums, in 2016, and decreased due primarily to lower frequency and severity of claims. Catastrophe losses and LAE (excluding development), net of reinsurance recoveries from the FHCF, were \$3.3 million in 2017, compared to \$1.4 million in 2016. Catastrophe Losses and LAE, net of reinsurance recoveries from the FHCF, in 2017 included catastrophe losses and LAE of \$3.2 million from Hurricanes Harvey and Irma. Unfavorable loss and LAE reserve development was \$0.3 million in 2017, compared to favorable loss and LAE

reserve development of \$0.4 million in 2016.

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## Investment Results

## Investment Income

Net Investment Income for the nine and three months ended September 30, 2017 and 2016 was:

| (Dollars in Millions)  | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2017      | Sep 30, 2016 | Sep 30, 2017       | Sep 30, 2016 |
| Investment Income (Loss):  |                   |              |                    |              |
| Interest on Fixed Income Securities                              | \$184.0           | \$181.2      | \$61.8             | \$61.4       |
| Dividends on Equity Securities Excluding Alternative Investments | 7.0               | 9.0          | 2.6                | 2.7          |
| Alternative Investments:   |                   |              |                    |              |
| Equity Method Limited Liability Investments                      | 21.9              | 3.7          | 11.1               | 5.2          |
| Fair Value Option Investments                                    | 1.0               | (3.9)        | 0.5                | (1.4)        |
| Limited Liability Investments Included in Equity Securities      | 18.7              | 16.6         | 5.9                | 5.7          |
| Total Alternative Investments                                    | 41.6              | 16.4         | 17.5               | 9.5          |
| Short-term Investments   | 1.0               | 0.4          | 0.5                | 0.2          |
| Loans to Policyholders   | 15.7              | 16.1         | 4.9                | 5.4          |
| Real Estate  | 8.3               | 8.9          | 2.6                | 3.0          |
| Other  | 0.2               | —            | 0.1                | —            |
| Total Investment Income  | 257.8             | 232.0        | 90.0               | 82.2         |
| Investment Expenses:   |                   |              |                    |              |
| Real Estate  | 7.7               | 8.4          | 2.6                | 2.9          |
| Other Investment Expenses  | 5.5               | 5.2          | 1.5                | 1.6          |
| Total Investment Expenses  | 13.2              | 13.6         | 4.1                | 4.5          |
| Net Investment Income  | \$244.6           | \$218.4      | \$85.9             | \$77.7       |

Net Investment Income was \$244.6 million and \$218.4 million for the nine months ended September 30, 2017 and 2016, respectively. Net Investment Income increased by \$26.2 million in 2017 due primarily to higher investment returns from Alternative Investments and a higher level of investments in fixed income securities, partially offset by lower yields on fixed income securities and lower dividends on common and preferred stocks.

Net Investment Income was \$85.9 million and \$77.7 million for the three months ended September 30, 2017 and 2016, respectively. Net Investment Income increased by \$8.2 million in 2017 due primarily to higher investment returns from Alternative Investments and a higher level of investments in fixed income securities, partially offset by 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, 2017 and 2016 were:

| (Dollars in Millions)   | Nine Months Ended |              | Three Months Ended |              |
|---|-------------------|--------------|--------------------|--------------|
|   | Sep 30, 2017      | Sep 30, 2016 | Sep 30, 2017       | Sep 30, 2016 |
| Recognized in Condensed Consolidated Statements of Operations:                |                   |              |                    |              |
| Gains on Sales  | \$44.8            | \$24.9       | \$7.9              | \$12.1       |
| Losses on Sales   | (0.5)             | (1.3)        | —                  | (0.8)        |
| Net Impairment Losses Recognized in Earnings                                  | (10.5)            | (24.0)       | (2.9)              | (8.3)        |
| Net Gains on Trading Securities   | 0.7               | 0.4          | 0.2                | 0.3          |
| Net Gain (Loss) Recognized in Condensed Consolidated Statements of Operations | 34.5              | —            | 5.2                | 3.3          |
| Recognized in Other Comprehensive Income (Loss)                               | 83.6              | 217.2        | 15.7               | (8.3)        |
| Total Comprehensive Investment Gains (Losses)                                 | \$118.1           | \$217.2      | \$20.9             | \$(5.0)      |



## Investment Results (continued)

## 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, 2017 and 2016 were:

| (Dollars in Millions)                        | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | Sep 30, 2017      | Sep 30, 2016 | Sep 30, 2017       | Sep 30, 2016 |
| Fixed Maturities:                            |                   |              |                    |              |
| Gains on Sales                               | \$7.3             | \$14.1       | \$2.4              | \$2.7        |
| Losses on Sales                              | (0.4 )            | (1.1 )       | —                  | (0.8 )       |
| Equity Securities:                           |                   |              |                    |              |
| Gains on Sales                               | 31.1              | 9.8          | 3.9                | 9.3          |
| Losses on Sales                              | —                 | (0.1 )       | —                  | —            |
| Equity Method Limited Liability Investments: |                   |              |                    |              |
| Gains on Sales                               | —                 | —            | —                  | —            |
| Losses on Sales                              | —                 | —            | —                  | —            |
| Real Estate:                                 |                   |              |                    |              |
| Gains on Sales                               | 6.4               | 1.0          | 1.6                | 0.1          |
| Losses on Sales                              | —                 | —            | —                  | —            |
| Other:                                       |                   |              |                    |              |
| Losses on Sales                              | (0.1 )            | (0.1 )       | —                  | —            |
| Net Gains on Trading Securities              | 0.7               | 0.4          | 0.2                | 0.3          |
| Net Realized Gains on Sales of Investments   | \$45.0            | \$24.0       | \$8.1              | \$11.6       |
| Gross Gains on Sales                         | \$44.8            | \$24.9       | \$7.9              | \$12.1       |
| Gross Losses on Sales                        | (0.5 )            | (1.3 )       | —                  | (0.8 )       |
| Net Gains on Trading Securities              | 0.7               | 0.4          | 0.2                | 0.3          |
| Net Realized Gains on Sales of Investments   | \$45.0            | \$24.0       | \$8.1              | \$11.6       |

## 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 Operations 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 Operations for the nine and three months ended September 30, 2017 and 2016 were:

| (Dollars in Millions)                        | Nine Months Ended |                   | Three Months Ended |                   |
|--|-------------------|-------------------|--------------------|-------------------|
|  | Sep 30, 2017      | Sep 30, 2016      | Sep 30, 2017       | Sep 30, 2016      |
|  | Number            | Number            | Number             | Number            |
|  | Amount of Issuers | Amount of Issuers | Amount of Issuers  | Amount of Issuers |
| Fixed Maturities                             | \$(9.8 ) 8        | \$(21.8) 10       | \$(2.9) 3          | \$(8.3 ) 5        |
| Equity Securities                            | (0.7 ) 2          | (2.2 ) 13         | — —                | — —               |
| Net Impairment Losses Recognized in Earnings | \$(10.5)          | \$(24.0)          | \$(2.9)            | \$(8.3 )          |

## 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, 2017, 90% 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, 2017 and December 31, 2016:

| NAIC Rating                           | Rating       | Sep 30, 2017              |                        |   | Dec 31, 2016              |                        |   |
|---------------------------------------|--------------|---------------------------|------------------------|---|---------------------------|------------------------|---|
|                                       |              | Fair Value<br>in Millions | Percentage<br>of Total | % | Fair Value<br>in Millions | Percentage<br>of Total | % |
| 1                                     | AAA, AA, A   | \$3,319.3                 | 63.4                   | % | \$3,280.4                 | 64.0                   | % |
| 2                                     | BBB          | 1,389.6                   | 26.5                   |   | 1,338.2                   | 26.1                   |   |
| 3-4                                   | BB, B        | 337.5                     | 6.4                    |   | 321.6                     | 6.3                    |   |
| 5-6                                   | CCC or Lower | 196.4                     | 3.7                    |   | 184.7                     | 3.6                    |   |
| Total Investments in Fixed Maturities |              | \$5,242.8                 | 100.0                  | % | \$5,124.9                 | 100.0                  | % |

Gross unrealized losses on the Company's investments in below-investment-grade fixed maturities were \$6.7 million and \$12.7 million at September 30, 2017 and December 31, 2016, respectively.

The following table summarizes the fair value of the Company's investments in governmental fixed maturities at September 30, 2017 and December 31, 2016:

| (Dollars in Millions)   | Sep 30, 2017 |                                       |   | Dec 31, 2016 |                                       |   |
|---|--------------|---------------------------------------|---|--------------|---------------------------------------|---|
|   | Fair Value   | Percentage<br>of Total<br>Investments | % | Fair Value   | Percentage<br>of Total<br>Investments | % |
| U.S. Government and Government Agencies and Authorities<br>States and Political Subdivisions: | \$359.1      | 5.4                                   | % | \$336.3      | 5.1                                   | % |
| States  | 614.7        | 9.2                                   |   | 655.3        | 9.9                                   |   |
| Political Subdivisions  | 171.9        | 2.6                                   |   | 174.7        | 2.6                                   |   |
| Revenue Bonds   | 936.4        | 14.1                                  |   | 884.9        | 13.4                                  |   |
| Foreign Governments   | 3.3          | —                                     |   | 3.4          | 0.1                                   |   |
| Total Investments in Governmental Fixed Maturities  | \$2,085.4    | 31.3                                  | % | \$2,054.6    | 31.1                                  | % |

## Investment Quality and Concentrations (continued)

The following table summarizes the fair value of the Company's investments in non-governmental fixed maturities by industry at September 30, 2017 and December 31, 2016.

| (Dollars in Millions)                                  | Sep 30, 2017 |                                 |   | Dec 31, 2016 |                                 |   |
|--|--------------|---------------------------------|---|--------------|---------------------------------|---|
|  | Fair Value   | Percentage of Total Investments |   | Fair Value   | Percentage of Total Investments |   |
| Manufacturing  | \$1,221.7    | 18.4                            | % | \$1,227.8    | 18.6                            | % |
| Finance, Insurance and Real Estate                     | 767.9        | 11.5                            |   | 742.6        | 11.2                            |   |
| Services   | 436.8        | 6.6                             |   | 391.6        | 5.9                             |   |
| Transportation, Communication and Utilities            | 369.1        | 5.5                             |   | 364.1        | 5.5                             |   |
| Mining   | 166.2        | 2.5                             |   | 157.2        | 2.4                             |   |
| Retail Trade   | 103.9        | 1.6                             |   | 101.9        | 1.5                             |   |
| Wholesale Trade  | 73.4         | 1.1                             |   | 69.2         | 1.0                             |   |
| Agriculture, Forestry and Fishing                      | 14.7         | 0.2                             |   | 14.4         | 0.2                             |   |
| Other  | 3.7          | 0.1                             |   | 1.5          | —                               |   |
| Total Investments in Non-governmental Fixed Maturities | \$3,157.4    | 47.5                            | % | \$3,070.3    | 46.3                            | % |

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, 2017.

| (Dollars in Millions) | Number of Issuers | Aggregate Fair Value |
|-----------------------|-------------------|----------------------|
| Below \$5             | 459               | \$936.5              |
| \$5 - \$10            | 139               | 922.1                |
| \$10 - \$20           | 69                | 914.9                |
| \$20 - \$30           | 13                | 317.2                |
| Greater Than \$30     | 2                 | 66.7                 |
| Total                 | 682               | \$3,157.4            |

The Company's short-term investments primarily consist of U.S. treasury bills, commercial paper, overnight repurchase agreements, overnight interest bearing accounts, money market funds and certificates of deposits. At September 30, 2017, the Company had \$157.4 million invested in U.S. treasury bills, \$39.9 million invested in commercial paper, \$26.4 million invested in money market funds which primarily invest in U.S. Treasury securities and \$15.1 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, 2017:

| (Dollars in Millions)                          | Fair Value | Percentage of Total Investments |
|--|------------|---------------------------------|
| Fixed Maturities:                              |            |                                 |
| States including their Political Subdivisions: |            |                                 |
| Texas  | \$12.0     | 1.5 %                           |
| Georgia  | 8.8        | 1.3                             |
| Michigan                                       | 8.1        | 1.3                             |
| Louisiana                                      | 7.7        | 1.1                             |
| Ohio   | 7.0        | 1.0                             |
| Colorado                                       | 6.0        | 1.0                             |
| Virginia                                       | 5.9        | 1.0                             |
| Florida  | 4.7        | 0.9                             |
| Wisconsin                                      | 4.6        | 0.9                             |
| Equity Securities—Other Equity Interests:      |            |                                 |
| iShares® Core S&P 500 ETF                      | \$4.3      | 1.3                             |
| Total  | \$75.8     | 11.4 %                          |

## 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 hedge funds, distressed debt, mezzanine debt and secondary transactions. 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, or Fair Value Option Investments depending on the accounting method used to report the investment. Additional information pertaining to these investments at September 30, 2017 and December 31, 2016 is presented below.

| Asset Class   | Unfunded   | Reported Value |                      |
|---|------------|----------------|----------------------|
|   | Commitment | Sep 30, 2017   | Sep 30, Dec 31, 2016 |
| Reported as Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings: |            |                |                      |
| Mezzanine Debt  | \$ 60.8    | \$62.5         | \$63.2               |
| Distressed Debt   | —          | 57.3           | 65.4                 |
| Secondary Transactions  | 18.9       | 21.4           | 27.3                 |
| Senior Debt   | 2.7        | 5.6            | 6.6                  |
| Leveraged Buyout  | 0.1        | 2.9            | —                    |
| Growth Equity   | —          | 5.7            | 4.6                  |
| Other   | —          | 4.7            | 8.8                  |
| Total Equity Method Limited Liability Investments   | 82.5       | 160.1          | 175.9                |
| Reported as Other Equity Interests at Fair Value:   |            |                |                      |
| Mezzanine Debt  | 82.9       | 104.3          | 97.6                 |
| Senior Debt   | 30.8       | 33.8           | 36.4                 |
| Distressed Debt   | 3.6        | 17.6           | 18.8                 |
| Secondary Transactions  | 10.3       | 9.8            | 11.9                 |
| Leveraged Buyout  | 3.1        | 6.2            | 6.5                  |
| Other   | 2.3        | 31.2           | 38.4                 |
| Total Reported as Other Equity Interests at Fair Value  | 133.0      | 202.9          | 209.6                |
| Reported as Fair Value Option Investments:  |            |                |                      |
| Hedge Funds   | —          | 77.1           | 111.4                |
| Total Investments in Limited Liability Companies and Limited Partnerships                               | \$ 215.5   | \$440.1        | \$496.9              |

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, 2017 and 2016 were:

| (Dollars in Millions)                  | Nine Months              |                 | Three Months             |                 |
|--|--------------------------|-----------------|--------------------------|-----------------|
|  | Ended<br>Sep 30,<br>2017 | Sep 30,<br>2016 | Ended<br>Sep 30,<br>2017 | Sep 30,<br>2016 |
| Insurance Expenses:                    |                          |                 |                          |                 |
| Commissions                            | \$320.5                  | \$301.5         | \$109.6                  | \$102.9         |
| General Expenses                       | 148.1                    | 157.1           | 50.2                     | 51.2            |
| Taxes, Licenses and Fees               | 40.4                     | 37.5            | 13.8                     | 12.4            |
| Total Costs Incurred                   | 509.0                    | 496.1           | 173.6                    | 166.5           |
| Policy Acquisition Costs:              |                          |                 |                          |                 |
| Deferred                               | (262.3 )                 | (237.1 )        | (91.6 )                  | (82.3 )         |
| Amortized                              | 234.6                    | 225.3           | 80.4                     | 76.0            |
| Net Policy Acquisition Costs Amortized | (27.7 )                  | (11.8 )         | (11.2 )                  | (6.3 )          |
| Amortization of Insurance in Force     | 3.9                      | 4.5             | 1.3                      | 1.5             |
| Insurance Expenses                     | 485.2                    | 488.8           | 163.7                    | 161.7           |
| Interest Expense                       | 26.9                     | 33.4            | 7.8                      | 11.1            |
| Other Expenses:                        |                          |                 |                          |                 |
| Curtailment Gains, Net                 | —                        | (2.6 )          | —                        | —               |
| Loss on Cash Flow Hedge                | 1.1                      | —               | —                        | —               |
| Other                                  | 31.1                     | 34.2            | 10.4                     | 10.9            |
| Other Expenses                         | 32.2                     | 31.6            | 10.4                     | 10.9            |
| Interest and Other Expenses            | 59.1                     | 65.0            | 18.2                     | 22.0            |
| Total Expenses                         | \$544.3                  | \$553.8         | \$181.9                  | \$183.7         |

Insurance Expenses was \$485.2 million for the nine months ended September 30, 2017, compared to \$488.8 million for the same period in 2016. Insurance Expenses decreased by \$3.6 million in 2017 due primarily to a lower premium deficiency in the Alliance United nonstandard personal automobile book of business, which allows for a higher percentage of acquisition costs to be deferred, an increase in the percentage of software development costs eligible for capitalization as projects moved from the preliminary project stage to the application development stage, and cost reduction initiatives, partially offset by growth in business.

Insurance Expenses was \$163.7 million for the three months ended September 30, 2017, compared to \$161.7 million for the same period in 2016. Insurance Expenses increased by \$2.0 million in 2017 due primarily to growth in business, partially offset by cost reduction initiatives.

Interest and Other Expenses was \$59.1 million for the nine months ended September 30, 2017, compared to \$65.0 million for the same period in 2016. Interest expense decreased by \$6.5 million in 2017 due primarily to lower levels of debt outstanding and a lower average effective interest rate thereon. 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 \$0.6 million in 2017 due primarily to net curtailment gains recognized in 2016, higher employee compensation and a charge to earnings in 2017 to record the ineffective portion of a hedging relationship related to an anticipated debt issuance, partially offset by lower pension expense in 2017 resulting from a longer amortization period to amortize actuarial losses. In the second quarter of 2016, the Company froze benefit accruals under the Company's defined benefit pension plans.

Interest and Other Expenses was \$18.2 million for the three months ended September 30, 2017, compared to \$22.0 million for the same period in 2016. Interest expense decreased by \$3.3 million in 2017 due primarily to lower levels of debt outstanding and a lower average effective interest rate thereon. Other expense decreased by \$0.5 million in 2017.



### Income Taxes

The Company's effective income tax rate from continuing operations differs from the Federal statutory income tax rate due primarily to the effects of 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. Tax-exempt investment income and dividends received deductions collectively were \$21.5 million for the nine months ended September 30, 2017, compared to \$21.1 million for the same period in 2016. Tax-exempt investment income and dividends received deductions collectively were \$7.8 million for the three months ended September 30, 2017, compared to \$8.0 million for the same period in 2016. The amount of expense recognized for long-term equity-based compensation expense under GAAP was \$0.2 million lower than the amount that would be deductible under the Internal Revenue Code for the nine months ended September 30, 2017. The amount of expense recognized for long-term equity-based compensation expense under GAAP was \$1.7 million lower than the amount that would be deductible under the Internal Revenue Code for the three months ended September 30, 2017.

### Recently Issued Accounting Pronouncements

The Company has adopted all recently issued accounting pronouncements with effective dates prior to October 1, 2017. The impact of adoption was not material. With the possible exceptions of ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2016-02, Leases (Topic 842) and ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the Company does not expect the adoption of all other recently issued accounting pronouncements with effective dates after September 30, 2017 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

#### Debt

Kemper has a \$225.0 million, unsecured, revolving credit agreement expiring June 2, 2020. There were no outstanding borrowings at September 30, 2017 or December 31, 2016 under the credit agreement.

On February 24, 2015, Kemper issued \$250 million of its 2025 Senior Notes. On June 12, 2017, Kemper issued an additional \$200 million of its 2025 Senior Notes. The net 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 the second quarter of 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%.

Trinity and United Insurance are members of the FHLB of Dallas and Chicago, respectively. During the first nine months of 2017, Trinity and United Insurance obtained various advances under their respective agreements with the FHLB of Dallas and Chicago, all of which were repaid during such period. Trinity's outstanding advances from the FHLB of Dallas did not exceed \$60.0 million at any point in time during the first nine months of 2017. United Insurance's outstanding advances from the FHLB of Chicago did not exceed \$80.0 million at any point in time during the first nine months of 2017. During the first nine months of 2016, Trinity borrowed and repaid one advance of \$10.0 million under its agreement with the FHLB of Dallas. United Insurance did not borrow under its agreement with the FHLB of Chicago during the first nine months of 2016. There were no advances from the FHLB of Dallas or Chicago outstanding at either September 30, 2017 or December 31, 2016.

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

## Liquidity and Capital Resources (continued)

### 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 dividends of \$88.1 million to Kemper during the first nine months of 2017. Kemper estimates that its direct insurance subsidiaries would be able to pay approximately an additional \$30 million in dividends to Kemper during the remainder of 2017 without prior regulatory approval.

### Dividends to Shareholders

Kemper paid a quarterly dividend to shareholders of \$0.24 per common share in the first, second and third quarters of 2017. Dividends and dividend equivalents paid were \$37.1 million for the nine months ended September 30, 2017.

### Sources of Funds

Kemper directly held cash and investments totaling \$188.2 million at September 30, 2017, compared to \$298.7 million at December 31, 2016.

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 and subordinated debentures include cash and investments directly held by Kemper, receipt of dividends from Kemper's insurance subsidiaries and borrowings under the credit agreement.

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 the third quarter of 2016, the Company's Life & Health segment voluntarily began implementing a comprehensive process under which it will cross-reference 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, 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 \$164.5 million for the nine months ended September 30, 2017, compared to \$170.5 million for the same period in 2016.

Net Cash Used by Financing Activities was \$193.1 million for the nine months ended September 30, 2017, compared to \$38.5 million for the same period in 2016. Kemper used \$360.0 million of cash to repay long-term debt for the nine months ended September 30, 2017. Net proceeds from the issuance of long-term debt provided \$200.2 million of cash for the nine months ended September 30, 2017. Kemper did not repurchase any shares of its common stock during the nine months ended September 30, 2017. Kemper used \$3.8 million of cash during the first nine months of 2016 to repurchase shares. Kemper used \$37.1 million of cash to pay dividends for the nine months ended September 30, 2017, compared to \$36.9 million of cash used to pay dividends in the same period of 2016. The quarterly dividend rate was \$0.24 per common share for the first, second and third quarters of 2017 and each quarter of 2016.



#### Liquidity and Capital Resources (continued)

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 Provided by Investing Activities was \$50.5 million for the nine months ended September 30, 2017, compared to Net Cash Used by Investing Activities of \$122.6 million for the same period in 2016. Short-term investments investing activities provided \$40.4 million of cash for the nine months ended September 30, 2017, compared to net cash used of \$68.5 million for the same period in 2016. Fixed Maturities investing activities used net cash of \$34.1 million for the nine months ended September 30, 2017, compared to \$117.4 million for the same period in 2016. Equity Securities investing activities used net cash of \$3.2 million for the nine months ended September 30, 2017, compared to net cash provided of \$42.4 million for the same period in 2016. Equity Method Limited Liability Investments investing activities provided net cash of \$21.8 million for the nine months ended September 30, 2017, compared to \$2.4 million for the same period in 2016. Net cash provided by Fair Value Option Investments investing activities was \$35.2 million for the nine months ended September 30, 2017, compared to \$34.5 million for the same period in 2016. Net cash provided by the Sales of Investment Real Estate was \$26.2 million for the nine months ended September 30, 2017, compared to \$7.5 million in the same period in 2016. Net cash used for the acquisition and development of software was \$28.8 million for the nine months ended September 30, 2017, compared to \$8.8 million for the same period in 2016.

#### 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 2016 Annual Report. There has been no material change to the information disclosed in the 2016 Annual Report with respect to these critical accounting estimates and the Company's critical accounting policies.

#### 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 2016 Annual Report. Accordingly, no disclosures about market risk have been made in Item 3 of this Form 10-Q.

#### 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.

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 risk factor below, which was included in Item 1A. of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, there were no significant changes in the risk factors included in Item 1A. of Part I of the 2016 Annual Report.

Changes in tax laws could adversely impact our business, financial condition and results of operations.

Changes in tax laws could have a material impact on the Company. Currently, there is significant discussion of Federal income tax reform. One of the key features of the primary proposals being discussed is a reduction in the Federal corporate income tax rate. If a reduction in the corporate Federal income tax rate were enacted, the Company might incur an initial charge to earnings to write off a portion of the net deferred tax asset position recognized in the Company's Consolidated Balance Sheet. However, future operating results would be taxed at the lower rate. If a reduction in the corporate Federal income tax rate were enacted, Kemper's insurance subsidiaries might have to write-off or otherwise non-admit a portion of their respective deferred tax assets, which would result in a decrease in their respective capital and surplus under statutory accounting principles for insurance companies. This might result in Kemper contributing additional capital to its insurance subsidiaries in order to maintain desired statutory capital adequacy ratios. If corporate Federal income tax rates were reduced, federal and/or state legislation might be enacted to help offset the decrease in tax revenue to the government. Such legislation might reduce or eliminate certain tax advantages that are currently beneficial to the Company, including tax-exempt interest on municipal securities, the dividends received deduction and certain tax credits. Accordingly, the fair value of the Company's investments might be adversely impacted.

## 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, 2017 follows.

| Period         | Total<br>Number<br>of Shares<br>Purchased<br>(1) | Average<br>Price<br>Paid per<br>Share | Total   | Maximum   |
|----------------|--|---------------------------------------|---|---|
|                |  |                                       | Number of<br>Shares<br>Purchased<br>as Part<br>of Publicly<br>Announced<br>Plans<br>or<br>Programs<br>(1) | 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)<br>(1) |
| July 2017      | —  | \$                                    | —   | \$ 243.7  |
| August 2017    | —  | \$                                    | —   | \$ 243.7  |
| September 2017 | —  | \$                                    | —   | \$ 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.

## 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.

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## 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<br>Furnished<br>Herewith |
|----------------|--|---------------------------|----------------|---------------------------|-----------------------------------|
|                |  | Form                      | File<br>Number | Exhibit<br>Filing<br>Date |                                   |
| <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          | XBRL Taxonomy Extension Definition Linkbase Document   |                           |                |                           | X                                 |

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: October 30, 2017 /S/ JOSEPH P. LACHER, JR.

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

Date: October 30, 2017 /S/ JAMES J. MCKINNEY

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

Date: October 30, 2017 /S/ RICHARD ROESKE

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